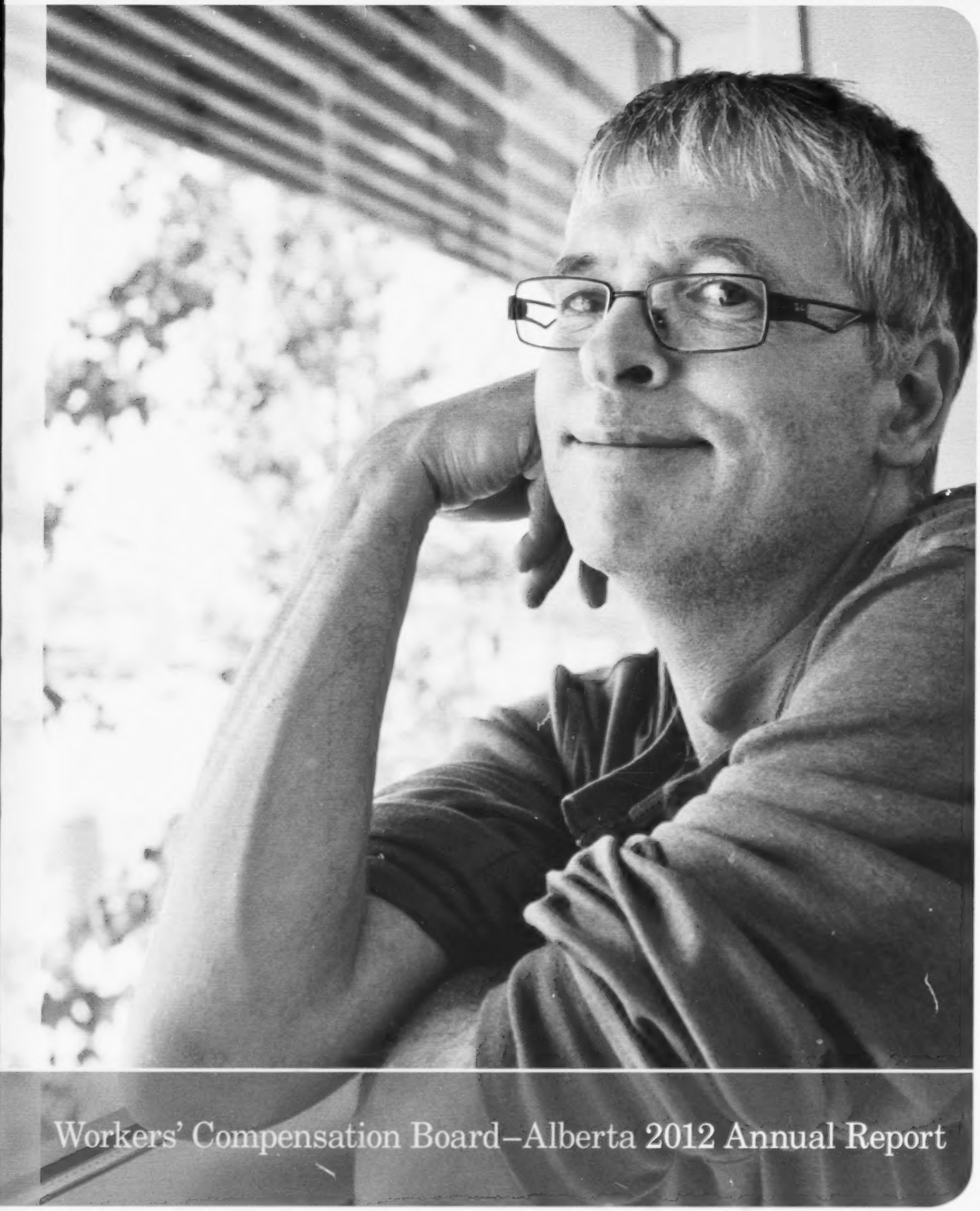

Workers' Compensation Board–Alberta 2012 Annual Report

WCB-Alberta
2012 Annual Report

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Message from the Chair and the President & CEO

Bob Normand

Guy R. Kerr

People matter.

We operate within a workers' compensation system built on legislation, policies and procedures. But the system is brought to life by many workers, employers, care providers and WCB employees. It's a system made up of people who need help and people who give help. And for every person, the experience is not only real—it really matters.

The workers' compensation system works

It is a privilege to be stewards of a system that has a material impact on lives.

In this annual report, you'll read about Craig, an injured worker whose story exemplifies the struggles many workers endure to return to work. You'll also read about the employer who fully supported his recovery, and the case manager who ensured Craig, his family and his employer had access to the resources needed to make his return to work successful. Lastly, you'll learn about the important support given by the caring and passionate people at Millard Health.

Co-ordinated efforts like this are what make the workers' compensation system succeed.

2012 was a year of strong performance

The economy experienced healthy recovery and more workers flowed into the system, yet injury rates remained stable. This strong performance shows that economic growth was accompanied by a solid focus on preventing injuries.

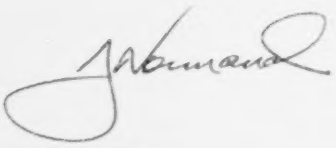
For those workers who were injured, modified work opportunities increased almost 14 per cent over the previous year, so more of them had the opportunity to stay connected to their workplaces. And over 93 per cent of workers achieved fitness for work, which is remarkable given some of the challenges workers like Craig had to recover from.

We want to reach higher

These results and others you'll read about confirm that the workers' compensation system in Alberta is working well—but there is always room to get better. Every day, WCB employees work to make it easier to report injuries, to refine case planning so that injured workers have every opportunity to succeed, and to make every single decision a fair one.

The focus on continual improvement will help us move forward through an uncertain economy. We are prepared and ready to maintain the stability of the system and to keep enhancing our service to the province's employers and workers.

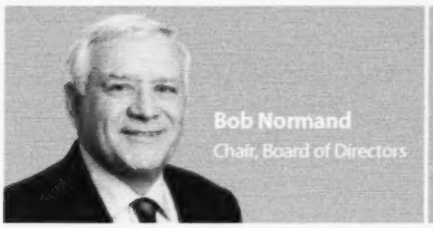
The system works because a lot of people are committed to making the effort it takes to make workplaces safer and maximize return-to-work opportunities. And it works because for them, and for us, it matters.



Bob Normand,
Chair, Board of Directors
Workers' Compensation
Board – Alberta

Guy R. Kerr,
President & CEO
Workers' Compensation
Board – Alberta

2012 Board of Directors



Bob Normand
Chair, Board of Directors

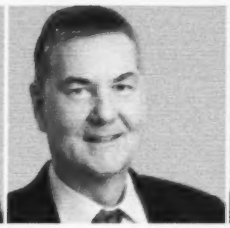
Guy R. Kerr
President & CEO

Representative of the interests of employers

Erna Ference ● ●
Philip Hughes ●
Alex McPherson ● ●

Representative of the interests of workers

Tim Brower ● ●
Fred Nowicki ● ●
Grace Thostenson ● ●



Representative of the interests of the general public

Denis Herard ● ●
Robert Nicolay ● ●
Norbert Van Wyk ● ●

Coloured dots denote committee membership. The Chair of the Board of Directors and the President & CEO are ex-officio members of all committees.

● **Finance and Audit** ● **Governance** ● **Human Resources and Compensation** ● **Policy**

A commitment to good governance and accountability are two of the driving factors for the Workers' Compensation Board – Alberta's Board of Directors. This unwavering focus not only ensures WCB remains true to its mandate, it also ensures the long-term stability of the system.

The board is made up of 10 men and women whose personal experiences and perspectives are as varied as their backgrounds. Their goal, however, is the same—to ensure the interests of workers, employers and the general public are represented within the workers' compensation system.

The Board of Directors is accountable to the Minister and Associate Minister of Human Services in accordance with the *Workers' Compensation Act* and corporate governance policy.[1]

In turn, the board holds WCB's Strategic Management Council responsible for conducting the day-to-day business.

Board committees review information from all areas of the business. They also identify and assess risks to help WCB's executive team make informed decisions. Good governance and accountability set the stage for this ongoing process.

[1] www.wcb.ab.ca/public/board.asp

Strategic Management Council

Back row

Wendy King
VP Disability and Information Management

Dieter Brunsch
VP Customer Service and Risk Management

Douglas Mah
Secretary and General Counsel

Front row

Ron Helmhold
Chief Financial Officer

Guy R. Kerr
President & CEO

Roxy Shulha-McKay
VP Employee and Corporate Services

WCB's Strategic Management Council (SMC) develops the vision, defines the strategy and sets the high standards we all follow in caring for our customers. By aligning resources, plans and people, SMC ensures we are clear on our objectives, we deliver on our commitments and we are always focused on our customer outcomes.

Their achievement is echoed in our employee feedback each year as **88 per cent**[1] of employees confirm the senior executive team provides a clear direction for the future and **96.5 per cent**[2] confirm they are able to explain how their unit objectives align with organizational goals.

"Leadership is lifting a person's vision to higher sights, the raising of a person's performance to a higher standard, the building of a personality beyond its normal limitations."— Peter Drucker

[1,2] The 2012 fall employee survey response rate was 84 per cent.

OUR VISION:

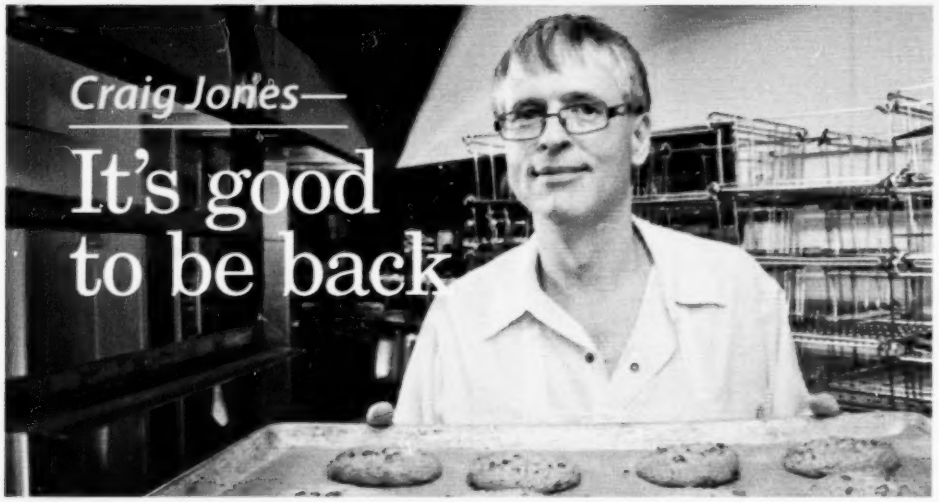
Albertans working—a safe, healthy and strong Alberta.

1,938,373

WORKERS WERE PROTECTED THROUGH COVERAGE FROM WCB IN 2012.

154,712

ALBERTA EMPLOYERS HAD WCB ACCOUNTS TO PROTECT THEIR EMPLOYEES AGAINST THE IMPACT OF WORKPLACE INJURY OR ILLNESS.



Craig Jones—

It's good to be back

"When the world says, 'Give up,' Hope whispers, 'Try it one more time.'"— author unknown

On Dec. 1, 2011, there was the sound of screeching metal at the bottom of the ladder and then the thud of my head bouncing off the ground. At least that's what they tell me. I have no memory of my accident.

Working as a bakery manager at Canada Safeway, I climbed up an eight-foot ladder to retrieve some supplies. Within seconds, I had fallen, shattering my wrist and suffering a severe brain injury.

Safeway management called 911 and then phoned my wife Jodi. Jodi tells me that she wasn't even worried when she got the call. She thought she would be picking me up with nothing worse than a bandaged arm.

When Jodi arrived at the hospital, a security guard ushered her into the "quiet room." When the neurosurgeon arrived, he told Jodi that I was very sick.

After hours of surgery I was put into a coma for a few days. Luckily, I came out of it but had lost decades of memory. At first, I couldn't communicate or even hold my body straight. Yet my family pushed me to do the simplest of tasks. Finally, I made the decision to get back on my feet again. I wanted to do whatever it took to recover and get back to work.

The turning point in my recovery was when I went to Millard Health. The staff believed in me and they gained my trust. I wanted to return to work and knew that they were there to help me reach my goal.

They also helped me understand why I was feeling a certain way, and they were there when I just needed to vent. They became family. They saved my life.

Today, I am back at work full time. Safeway has worked with me and the Millard team throughout my recovery; they never gave up on me. The reality is that I may never be a bakery manager again, but you know what? That's OK. I'm in a good place right now.

I feel like myself again.

OUR MISSION:

WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.

OUR VISION:

Albertans working—a safe, healthy and strong Alberta.

Carolyn Semotiuk—

The long way home

"Success seems to be largely a matter of hanging on after others have let go."— William Feather

We heard about Craig's injury through word of mouth. Another baker told us Craig fell off a ladder. We weren't worried. "Yeah, that would be Craig," we thought.

Then I received a call. This was much more than just a "Craig thing." I was told he had split his head open and the prognosis wasn't good.

Craig and I have known each other for 24 years. We worked together at Canada Safeway in Leduc for much of that time. I was there when his three kids were born, and he was there when I was expecting. We are the best of friends.

When anyone is injured on the job, I am compassionate. Craig's injury was different. It was a direct blow. It was personal.

Five months after his accident, Craig and his wife stopped by the Heritage Safeway where I work as a bakery manager. At that time, Craig was a very different person. He suffered from vertigo and memory loss and was frustrated easily—he still had a ways to go in his recovery.

As Craig was healing, the only thing on his mind was getting back to work.

As a manager and Craig's friend, I knew that if anyone could make it all the way back, it was Craig. He is driven and determined to prove everyone wrong.

Bringing him to our store on modified work duties was an easy decision; it was like he was coming home again. Today, Craig is back working full time as a baker. He's mixing, frying donuts, and working the ovens and tables—he has come full circle. He's an amazing person.

Then again, that's Craig for you.

Jennifer Scharff—

Charting his course

"No matter how long it takes, if you keep moving, one step at a time, you will reach the finish line."— author unknown

When Craig Jones walked into Millard Health for the first time, I saw a man filled with apprehension and anxiety. He was focused on his deficits—"I can't do that anymore, I will never be able to lift those bags of flour again."

As his occupational therapist, I tried to refocus him. But even I knew that he had cognitive difficulties across the board. Craig now struggled with planning and organization, and multi-tasking was difficult.

As the weeks passed, I quickly realized there was one thing that I failed to take into account—Craig's will and determination to succeed.

From the beginning, Craig worked harder than any client I have been associated with. He lifted weights to help strengthen his broken wrist, made strides in turning his negative thoughts into positive incentives to heal and kept his focus on the ultimate goal of returning to work.

There were setbacks along the way, and Craig is his own toughest critic.

One memory that will always stay with me is of the day Craig returned to the store where he had his accident. He got there before I did, and when I arrived, he was outside the store in tears.

He was afraid of what his co-workers would think of him. We eventually went in, and his co-workers were overjoyed—one girl even gave him a big hug. It was an emotional time, but it brought much-needed closure for Craig and his co-workers. I still have a hard time talking about that.

After witnessing Craig's incredible journey over the past year, I am still amazed by all that he has accomplished.

Craig has exceeded all expectations.

OUR MISSION:

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OUR VISION:

Albertans working—a safe, healthy and strong Alberta.

Marie Mendes—

The power of the human spirit

"Out of difficulties grow miracles."
— Jean de la Bruyere

I first saw Craig at the hospital—he was unresponsive, and doctors weren't sure he was going to make it. I walked into his room with his wife, Jodi, and sat on one side of his bed. I squeezed his hand slightly and introduced myself.

Craig had not responded to anything up to that point, but he gently squeezed my hand back. It was like he had returned, and that moment reminded me of a quote I once heard: "Value every moment that you have, because time waits for nobody."

As a case manager, in a case like this, my focus is on the family—giving them support and letting them know what they are entitled to in terms of benefits. For Craig's family, I wanted to remove any thoughts about finances from their minds and allow them to focus solely on Craig.

Over the next year, we all watched in amazement as Craig turned back the clock.

When I look at Craig's progress, three things stand out. First, his attitude is incredible. You have to slow Craig down—he wants to do everything at 100 miles an hour.

Second, Craig has benefited from strong family support. Jodi and their three daughters have been there to help him every step of the way.

Finally, the employer has been supportive throughout Craig's ordeal. They worked with us during the entire process and gave Craig an opportunity to return to work. More importantly, they gave Craig motivation and a goal to reach for.

1,666

WCB EMPLOYEES SHARED THE SAME GOAL—TO HELP INJURED WORKERS RETURN TO WORK SAFELY.

MILLARD HEALTH HAD A POSITIVE IMPACT ON THE

8,972

INJURED WORKERS WHO USED ITS REHABILITATION SERVICES.

OUR MISSION:

WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.

Our strategic plan

FOCUS ON RETURN TO WORK

We aim to use our expertise and resources to care for those who are injured on the job and to help them successfully achieve their fitness for work and their independence.

We help to minimize the impact of illness and injury by aligning the people, systems and strategies that drive results.

Achieved

84%

worker satisfaction with their involvement in return-to-work plans.

DECISION FAIRNESS

Fairness means workers and employers receive accurate, balanced and appropriate decisions based on facts and the guidance provided by the *Workers' Compensation Act* and WCB policy.

Our commitment to fairness underscores every decision we make.

Achieved

84.3%

worker satisfaction and

65.8%

employer satisfaction with fairness of claim decisions.

LEVERAGING PREVENTION

Our flexible pricing programs provide employers with incentives to build safe and supportive workplaces for workers, ensuring that the workers' compensation system accurately and fairly reflects employer and worker performance.

We work with our partners to foster and reward the right safety and disability management behaviours.

632

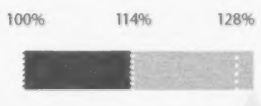
companies moved out of a poor performance surcharge position.

FINANCIAL STABILITY

We will be here for workers today and tomorrow. We aim to maintain a system that is funded to provide the benefits and services workers are entitled to and that holds today's employers accountable for the cost of today's claims.

We deliver on our commitment to minimizing the impact of injury and illness, building stability and security for the future.

Target funded ratio range: 114-128%.



2012 funded position:

130.2%

Corporate objectives—
our customer outcomes

Focus on return to work

We had a positive impact on the lives of Alberta's injured workers and helped 93.1 per cent of those we cared for in 2012 achieve the fitness they needed to make a safe return to work. Our clients' success was better than our target of 90 per cent.

With the support of best-in-class rehabilitation services and proactive case planning, we helped Albertans keep working, thus contributing to a safe, healthy and strong Alberta.

Helped

93.1%

achieve the fitness needed to make a safe return to work.

Decision fairness

We had a positive impact on the lives of Alberta's injured workers by reaching a 90 per cent decision fairness audit score.

We audited over 2,300 claim files to ensure the right plans were developed for our clients; to confirm that legislation, policy and process were applied correctly; and to ensure that we have had strong, clear communication. Results were better than our target of achieving 85 per cent.

Achieved a

90%

decision fairness audit score.

Partnerships in Injury Reduction and Industry Custom Pricing

We had a positive impact on Alberta's workplaces by increasing the number of workers covered by employers participating in the voluntary pricing programs, Partnerships in Injury Reduction (PIR)[1] and Industry Custom Pricing (ICP)[2], as measured by a $600-million increase in total insurable earnings for participants. This result fell short of our target of $1.5 billion but was mitigated by a net increase in PIR participation of 473 employers with a new Certificate of Recognition (COR) from the province.

We remain committed to maintaining our efforts to leverage pricing to promote prevention. Workers and employers work hard to develop and maintain a strong safety culture, and although we are not a safety organization, we support our partners' efforts and reward success through pricing programs that deliver flexibility and accountability for their performance.

Overall, participants in our voluntary pricing programs now represent 69.6 per cent of the province's insurable earnings.

Reached a

$600

million increase in total insurable earnings for participants.

[1] http://www.wcb.ab.ca/pdfs/employers/EFS_Partnerships_in_injury_reduction.pdf

[2] http://www.wcb.ab.ca/pdfs/employers/EFS_Industry_custom_pricing.pdf

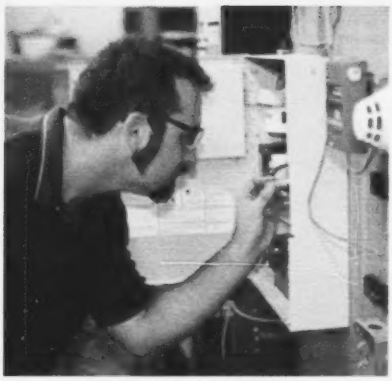
Corporate objectives—*our key deliverables*

Modified work

We positively impacted return-to-work success by proactively negotiating modified work on behalf of injured workers.

Disability management

We positively impacted injury rehabilitation by working collaboratively with our clients to prevent lifelong disability and by helping injured workers move successfully through the disability management process.



Vocational rehabilitation wage quality

We positively impacted return-to-work success by providing timely vocational assistance for clients who required a job change as a result of their compensable disability.

Economic loss payments (ELP)

We positively impacted post-injury wage quality by helping injured workers maximize their post-injury earnings through effective return-to-work planning.

For claims with time loss greater than 21 days, we increased modified work from 46.6 per cent to 49.6 per cent of the cases where employers were contacted to discuss modified work opportunities.

We increased modified work from 46.6 per cent to 49.6 per cent of the cases where employers were contacted to discuss modified work opportunities.

Modified-work only claims as a percentage of claims reported

2008	2009	2010	2011	2012
17.1%	14.8%	15.7%	15.6%	16.5%

We carefully monitored our clients' injury rehabilitation through their progression from short-term disability benefits to fitness for work, or the appropriate long-term benefits. As a result, the year-end number of cases that exceeded three months of total disability was only 716—67 cases fewer than our goal of 783.

The year-end number of cases that exceeded three months of total disability was only 716.

We believe in the importance of proactive rehabilitation and return-to-work support. With the right plans, injured workers can achieve great momentum for their recovery and can avoid job loss by remaining connected to their workplaces.

Of the workers who used our career planning services, 75.9 per cent achieved the potential to earn 75 per cent or more of their pre-injury income. Our target was to have at least 75 per cent of these clients achieve this success.

75.9 per cent of vocational services clients achieved the potential to earn 75 per cent or more of their pre-injury income.

By assisting our clients in achieving this level of wage quality, we help minimize the financial impact of their work injuries and increase their independence.

This work led to capitalized ELP costs being 12.4 per cent below our 2012 budget. Clients found good return-to-work opportunities, minimizing the wage differential between pre- and post-injury earnings and allowing us to achieve our goal of being within 10 per cent of budget.

Capitalized ELP costs were 12.4 per cent below our 2012 budget.

Our clients' success with ELPs is attributable to improved vocational rehabilitation service delivery and timing, as well as an improving economic environment with better return-to-work opportunities for workers.

Corporate objectives—*our innovation*

Technology is one of our strategic advantages as an organization. Our investment in technology has helped our organization deal with significant increases in workload without significantly increasing our cost for administration, allowing us to meet the expanding needs of our clients.

From 2002 to 2012, the number of covered workers increased by nearly 44 per cent and the number of employers who fund our system increased by 48 per cent. In that same period, WCB's workforce increased by less than 8 per cent thanks to increased efficiency and the effective use of technology.

Our investment in technology has helped our organization deal with significant increases in workload without significantly increasing our cost for administration.

Reducing technical complexity

We optimized internal and external processes and reduced technical complexity by:

1. **Completing a technology upgrade to our core return-to-work management application—eCO System.** Through this work, we increased disability management functionality and effectiveness. The project was delivered on time and on budget.

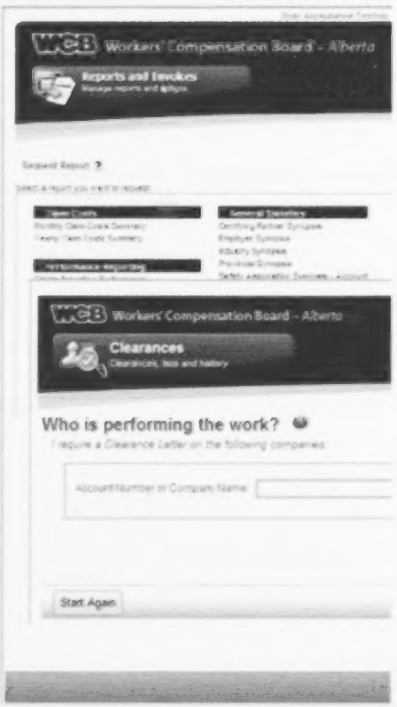
2. **Developing a project road map, confirming system requirements and the business case to revise our internal account management system—AIMS.** This sets the ground work for the AIMS Replacement project to begin in 2013.

3. **Completing three online services projects.** This included the launch of the new Employability Profiles Database for effective return-to-work planning, the technical completion of new functionality for the Loss Control Reporting (LCR) tool to facilitate discussions about modified work, and the completion of the technical aspect of our high-traffic Direct Employer Clearance Certificates (DECC) application to update its technical platform.

   The new Employability Profiles Database enables claim owners, employment specialists and workers to search for specific job options as part of the vocational return-to-work planning effort via WCB's website, an important step in collaborative return-to-work planning. This initiative was delivered on time and on budget.

   The new LCR functionality and the updating of the DECC platform are scheduled for implementation in the second quarter of 2013. These initiatives were delayed to accommodate additional technical work and are on budget.

   We also delivered a project road map to begin work on our practitioner online reporting tool, Electronic Injury Reporting, in 2013.



Investments in technology continued to deliver a strong foundation for good customer interactions.

Talking to young workers about their safety

HEADS UP
work smart. work safe.

Finding the right way to reach 18- to 24-year-olds

What do movies, rap music, safety blogs and young workers have in common? More than you think.

This year our Heads Up young worker safety awareness team used a mix of social channels to advance the safety conversation.

Their innovative writing of features like "Safety and the Movies"—a popular movie-themed safety discussion—allowed this group to look at their personal experiences and interests and use them to connect effectively with people just like them.

- **Matt** and **Chris** developed a catchy safety rap song, garnering over 1,700 views on YouTube and inspiring 19-year-old St. Albert resident, **Joe McCaffrey**, to pen and perform his own safety song, "Safe Zones".
- **Their safety blogs reached an average of 734 readers per month,** a group that grows every day.
- **The team's Twitter conversations reached all over the world,** with over 263 followers and many retweets and endorsements.

Were young workers safer in 2012?

In 2012, the number of young workers injured on the job decreased marginally by 0.4 per cent. Together, we can do better. Take time to talk to your teen or young employee about safety at work.

Join the safety conversation

Join our Facebook group, follow us on Twitter or read our weekly blog.

http://www.facebook.com/headsupab

http://headsupab.com/

@HeadsUpAB

Heads Up team — Theresa Trant, Melissa Babcock, Matt King, Doug Kisilevich and Lauren Smith.

Corporate objectives—
our financial stability

Our financial objectives focus on delivering on our commitment to minimize the impact of injury and illness by building stability and security for the future. Our initiatives and results had a positive impact on the workers' compensation system by:

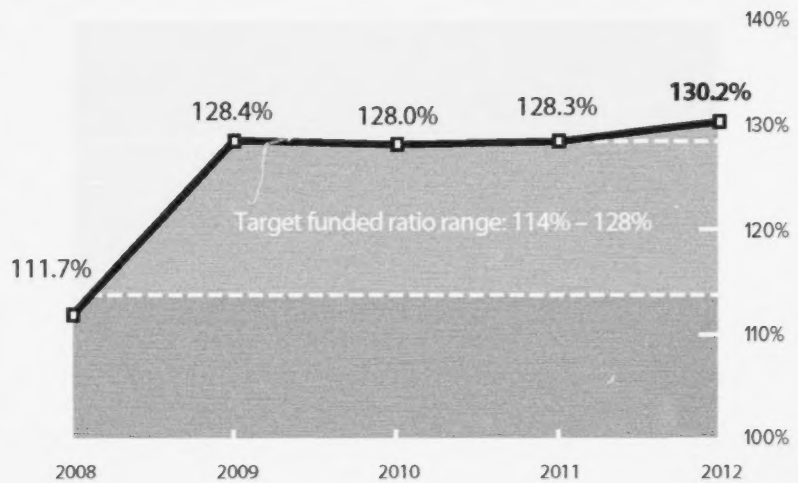
1. **Achieving non-capitalized transaction-year claim costs that were 7.2 per cent below the 2012 budget.** This result was better than our target of not being above budget by more than 5 per cent.

   Favourable cost results in total disability payments (TTD), health care (HC) and vocational rehabilitation (VR) costs were the major sources of the overall positive budget variance.

2. **Collecting 108.5 per cent of the 2012 premium revenue budget due to increased insurable earnings, which were 7.4 per cent ahead of expectations.** We saw high growth in the manufacturing; mining, oil and gas; transportation; and construction sectors.

Non-capitalized transaction-year claim costs were **7.2 per cent below** the 2012 budget.

Funded Position, 2008–2012



2012 financial highlights

Average collected premium rate of $1.24 per $100.00 of insurable earnings was $0.02 higher than budget, and was 0.8 per cent higher than the average rate collected in 2011.

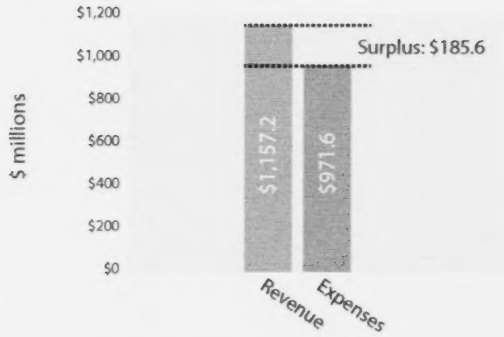
Surplus from customer operations of $185.6 million was $164.5 million higher than budget and $132.4 million higher than prior year. Collected premiums were higher than budget due to higher than expected employment and wage growth. Lower than expected health care costs also contributed to the favourable budget variance.

Surplus from financial management of $268.3 million was $131.1 million higher than budget and $249.5 million higher than prior year due to strong equity and real estate markets, partially offset by negative actuarial re-measurement adjustments.

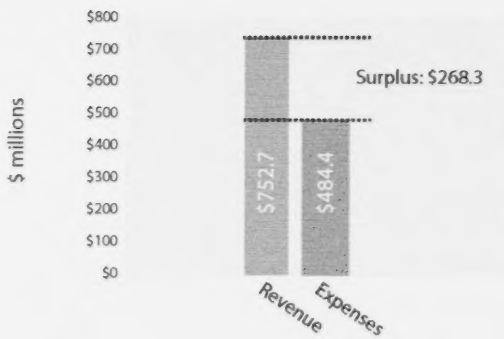
Operating surplus of $453.9 million was $295.6 million above budget and $381.9 million higher than in 2011.

Funded Position of $1,981.4 million increased by $326.3 million over 2011.

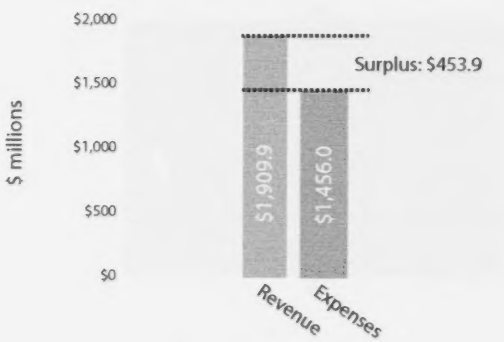
Customer operations



Financial management



Total operating surplus



Our community

To the rescue—Deanne Dove's charity of choice is the Sundance Canine Rescue Society. The Society provides a safe haven for unwanted dogs, like Babe, adopted by Deanne.

"WCB's Employee Giving Program makes it easy to lend a hand in the community.... I think having this option to help employees give back to their community shows what a caring organization WCB is."
— Susan Morgenstern

We've all heard of random acts of kindness. Imagine what the world would be like if we practised this kind of generosity year-round.

We work hard to foster a culture of caring and have various opportunities to connect with our community throughout the year. We have risen to this challenge to benefit many local charities.

While these acts of kindness aren't random, they are having a positive impact on the charities and not-for-profit organizations in our community.

In 2012, with help from our partners we:

- **Donated $50,000** to the Brain Injury Societies of Northern and Southern Alberta from our annual Charity Golf Tournament
- **Donated 224 units of blood** through Canadian Blood Services' Partners for Life program
- **Collected 293 coats** for the United Way's Coats for Kids program

"I've been very blessed in my life. Donating to charity is one way for me to show my appreciation while contributing to a cause that's making a real difference in someone's life."
— Jennifer Cairns

Our environment

Small steps, great determination.

We are committed to a safe, healthy and strong Alberta, and we believe everyone plays a role in protecting the world we live in. As a workplace, we are also committed to building a safe, healthy and strong environment.

It starts with a commitment from all of us to continually improve as an organization in the areas of energy management, waste reduction, environmental stewardship and conservation.

Whether through changes to our business procedures, building maintenance or the way we think about sustainability, we believe we can make a real impact without leaving behind a large footprint.

- **We saved the equivalent of 511 tons of waste** and over **3.3 million pounds of CO2** by opting to generate 25 per cent of our annual energy consumption from wind power.
- **We recycled 8,800 pounds of construction materials** from various building projects.
- **We recycled 10,000 beverage containers** in our offices and cafeterias.
- **We cleaned up nearly 350 pounds of litter** around our downtown Edmonton buildings as part of the Capital City Clean Up.

"Our corporate sustainability program supports our organizational goal of providing a safe, healthy and sustainable environment for staff, contractors and visitors. Recognizing the differences that can be made each and every day is important to us and to future generations."
— Lina Cosentino

"As an organization, it's our social responsibility to ensure we are conscious about our environmental practices and community involvement. Everyone can play a role in having a positive effect on the world and future generations."
— Manuel Vervoorst

Collaborative issue resolution

WCB's Office of the Appeals Advisor (OAA) provides independent advice, assistance and advocacy services to injured workers and their dependents when questioning a decision.

In 2012, appeals advisors helped injured workers and their dependents by:

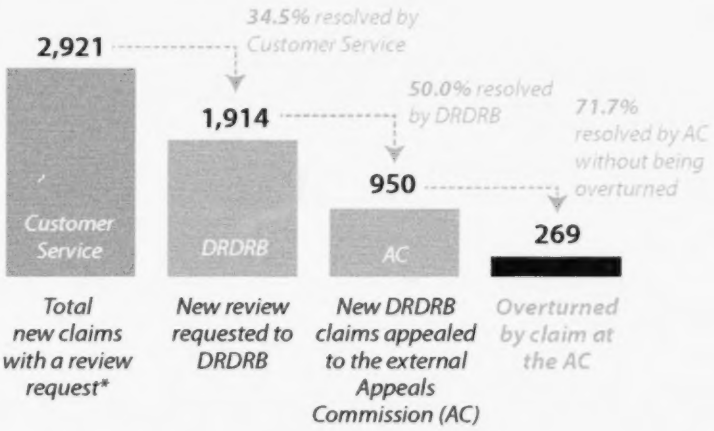
- **Resolving 1,283 issues on 981 claims**
- **Representing them at 535 hearings**

We strive to make decisions that are fair, and it is important to us that our clients understand all of the decisions that affect their claim or account.

The internal Dispute Resolution and Decision Review Body (DRDRB) ensures our clients have a clear opportunity to outline issues of concern and provides a specialist assessment of each case.

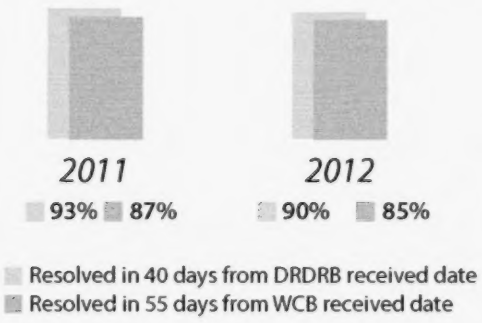
This process is enhanced for workers through the assistance of a free, expert advocacy service through the Office of the Appeals Advisor.

2012 claim review request life cycle



* A claim may have more than one request for review.

DRDRB: Timeliness of dispute resolution process



WCB-Alberta

Management Discussion and Analysis of Financial Statements and Operating Results

For the year ended December 31, 2012

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Management Discussion and Analysis of 2012 Financial Statements and Operating Results

The Management Discussion and Analysis (MD&A) provides management's perspective on key issues that affect current and future performance of the Workers' Compensation Board – Alberta (WCB). The MD&A, prepared as of April 30, 2013, should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2012.

Forward-looking statements

This report contains forward-looking statements about certain matters that are by their nature subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made herein. Forward-looking statements include, but are not limited to, WCB objectives, strategies, targeted and expected financial results. They also include the outlook for WCB's business and for the Alberta and global economies. Risks and uncertainties include, but are not limited to, changing market, industry and general economic factors or conditions; changes in legislation affecting WCB policies and practices; changes in accounting standards; the ability to retain and recruit qualified personnel; and other risks, known or unknown. Some are predictable or within WCB's control; many are not. The reader is hereby cautioned to not place undue reliance on these forward-looking statements.

Unless otherwise indicated, all amounts shown are in millions of Canadian dollars.

Business Overview

Corporate profile

Founded in 1918, WCB is a not-for-profit organization with a legislative mandate under the *Workers' Compensation Act* (the Act) to administer the workers' compensation system for the province of Alberta. While accountable to the Minister and Associate Minister of Human Services, WCB is independently funded and operated as an insurance enterprise. Through the payment of premiums, almost 155,000 employers fund the system, which covers more than 1.9 million workers.

WCB's mandate

In Canada, workers' compensation is a no-fault disability insurance system that protects both employers and workers against the economic impact of work-related injuries and occupational diseases. Based on the Meredith Principles, the system covers injured workers for lost employment income and provides health care, rehabilitation and other services required because of a work-related injury, while employers are shielded from litigation. This system brings economic stability to the workplace through collective liability that minimizes the risks and expenses of injury. To achieve these objectives, the Act established the Accident Fund and imposed a statutory obligation on WCB to ensure that it be fully funded.

At the highest and simplest level, WCB is involved in two significant and complementary business activities — customer operations and financial management.

Customer operations provides disability insurance for workplace injuries. Key business processes include rate setting, assessment and collection of premiums from employers, payment of compensation benefits to injured workers, return-to-work services and administration.

Financial management uses an integrated risk-based approach to managing assets and liabilities, generating an adequate return on invested assets to pay for claim-related obligations. Key business processes include strategic financial planning, investment management, claim benefit liability valuation, financial risk management and financial performance reporting. Strong financial management not only ensures security of benefits for workers and fair premiums for employers, but also provides appropriate tools for evaluating how effectively WCB is meeting its financial obligations.

WCB's vision and mission

The core principles set out in WCB's vision and mission shape the corporate beliefs and values that guide the organization's operating philosophy.

Vision

Albertans working—a safe, healthy and strong Alberta.

Mission

WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.

WCB's strategic vision is to make a positive and lasting impact on the people, society and economy of Alberta through what it does, while the mission statement describes the guidelines for how it intends to conduct business.

2012 Financial Performance

OPERATING HIGHLIGHTS

Customer care was one of the drivers behind WCB's positive operating results.
Customer operations teams demonstrated their commitment to service excellence, decision fairness and return to work for the clients they cared for in 2012.

Supported by Alberta's strongly growing economy, customer service teams provided cost effective rehabilitation support, successfully negotiated safe modified work and helped permanently injured workers achieve financial independence through timely vocational programs.

WCB maintained its sound financial position
WCB maintained a sound financial position, despite continued uncertainty within capital markets. Important themes that underscore 2012 performance include the following:

- Surplus from customer operations was $185.6 million, up from $53.2 million in 2011, due to higher premium revenues and lower claims costs than expected.
- Financial management activities generated a surplus of $268.3 million, up significantly from $18.8 million in 2011. Higher equity and infrastructure returns were major contributors to the overall portfolio return of 10.5 per cent, which exceeded the claim benefit liability requirement of 4.6 per cent. This generated a $504.8 million surplus, which was partially offset by actuarial remeasurement adjustments of $236.5 million.
- Combined, the operating surplus for 2012 was $453.9 million, up $381.9 million from 2011. The strong results in 2012 contributed to the Funded Position of $1,981.4 million, or 130.2 per cent, which is net of surplus distributions of $85.5 million payable in 2013.
- Growth of 11.6 per cent in employer insurable earnings closely paralleled premium revenue growth of 13.3 per cent to $1,157.2 million in 2012. The actual average premium rate increased slightly to $1.24, from $1.23 in 2011.
- Total claims and claims management expenses of $842.6 million decreased $1.9 million from the previous year. This was $70.9 million lower than budget due to lower costs primarily associated with health care. Average claim duration decreased significantly in 2012, ending the year at 34.2 days due to an increase in the use of modified work and positive return-to-work outcomes. Lost-time claim volume of 28,300 was up 1.4 per cent from 2011.

In its simplest terms, the funding model for WCB operates on the premise that in a given year, rates are set to generate premiums to cover all operating costs on a break-even basis, while investment returns are expected to cover the annual interest requirement on the liability. Surpluses or deficits arise when actual costs and returns are different from forecast expectations, which rely on economic and business assumptions based on available information at a point in time. Given the volatile performance of local and global economies, forecasting is subject to a great deal of uncertainty and risk. Consequently, actual results will likely differ significantly from even the most rigorously developed plans.

The factors contributing to surpluses or deficits are better understood when our Statement of Comprehensive Income is reorganized to represent our operations as two significant and complementary business activities — customer operations and financial management. The tables that follow represent this view, with the first presenting the major contributors to WCB's operating surplus. The second table presents the revenues and expenses that are associated with each business activity.

Sources of operating surplus

($ millions)	2012 Budget	2012 Actual	2011 Actual
Surplus from Customer Operations			
Premiums			
Surplus premium revenue resulting from the actual premium rate collected of $1.24 (2011 – $1.23) being higher than the required premium rate of $1.05 (2011 – $1.17), based on insurable earnings	$ 17.5	$ 177.8	$ 47.4
Other revenue (expense) items	3.6	7.8	5.8
	21.1	185.6	53.2
Surplus from Financial Management			
Investments			
Net excess of investment revenue over the claim benefit liability interest expense of $242.5 million (2011 – $228.8 million)	109.5	510.2	59.0
Other expense items	(2.8)	(5.4)	(4.5)
	106.7	504.8	54.5
Actuarial remeasurement			
Changes in actuarial methods and assumptions	-	305.3	(26.9)
Liability for latent occupational diseases	-	(686.4)	-
Gains (losses) due to claims experience and policy changes	30.5	144.6	(8.8)
	30.5	(236.5)	(35.7)
	137.2	268.3	18.8
OPERATING SURPLUS	$ 158.3	$ 453.9	$ 72.0

Operating surplus by business activity

($ millions)	2012 Budget	2012 Actual	2011 Actual
Customer Operations			
Premiums	$ 1,066.5	$ 1,157.2	$ 1,021.7
Claims and claims management	(913.5)	(842.6)	(844.5)
Corp admin and injury reduction	(131.9)	(129.0)	(124.0)
Surplus from Customer Operations	21.1	185.6	53.2
Financial Management			
Investment income	378.2	782.1	310.8
Investment management expense	(26.5)	(29.4)	(23.0)
Investment revenue	351.7	752.7	287.8
Interest expense on claim benefit liabilities	(242.2)	(242.5)	(228.8)
Remeasurement of claim benefit liabilities	30.5	(236.5)	(35.7)
Other expense items	(2.8)	(5.4)	(4.5)
Financial management expenses	(214.5)	(484.4)	(269.0)
Surplus from Financial Management	137.2	268.3	18.8
OPERATING SURPLUS	$ 158.3	$ 453.9	$ 72.0

Customer Operations

PREMIUMS

Insurable earnings

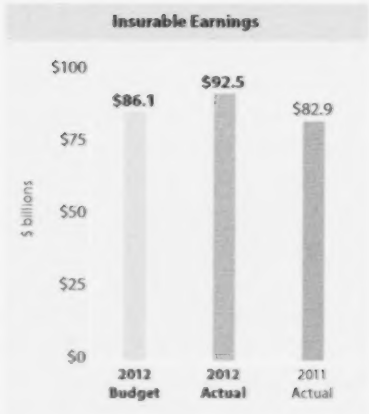
↗ $6.4 billion (7.4 per cent) over budget

↗ $9.6 billion (11.6 per cent) over prior year

Alberta's economy continued to exhibit strong growth in 2012. This resulted in better-than-expected year over year increases in payrolls due to both wage escalation and employment growth. 2012 insurable earnings of $92.5 billion were 7.4 per cent higher than the budget of $86.1 billion, and 11.6 per cent higher than 2011.

Insurable earnings were higher in eight out of nine sectors, with construction ($1.7B) and manufacturing ($1.3B) showing the highest increases compared to budget for the year.

Sectors that experienced the greatest increases over 2011 were construction ($2.5B); mining, oil and gas ($1.4B); and business, personal and professional services ($1.2B).



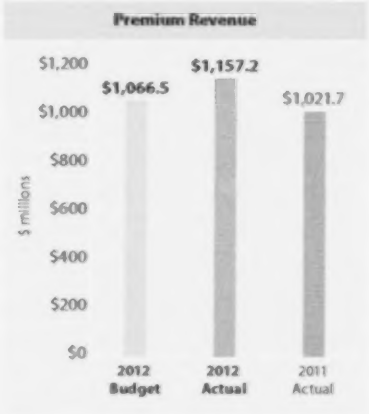
Premium revenue

↗ $90.7 million (8.5 per cent) over budget

The 2012 positive budget variance in premium revenue of $90.7 million was consistent with the positive budget variance in insurable earnings. Contributing sectors were transportation; mining, oil and gas; municipal government; and education and health, with an offset in construction.

↗ $135.5 million (13.3 per cent) over prior year

Consistent with the year over year growth of 11.6 per cent in employer insurable earnings, premium revenue grew by 13.3 per cent to $1,157.2 million in 2012.



PREMIUM RATES

Total premium revenue requirements for rate-setting purposes are based on projected expenses for the year. Base revenue requirements are composed of fully funded costs of claims arising in the current year, administration costs related to those claims, general administration expenses for WCB operations and transfer levies.

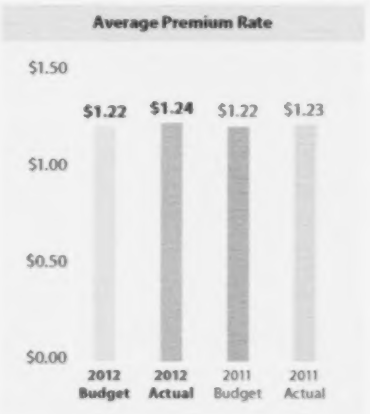
Average premium rate

↗ $0.02 (1.6 per cent) over budget

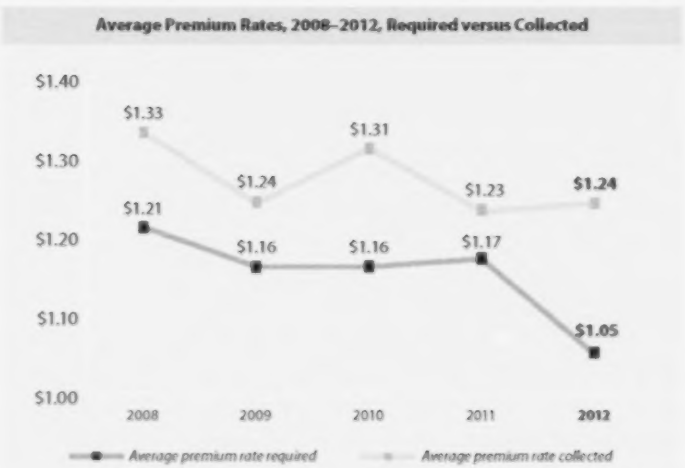
The actual average premium rate of $1.24 was slightly above the average budgeted premium rate of $1.22.

No budget increase from prior year

The average budgeted premium rate remained constant in 2012 at $1.22. The projected increases in operating costs in 2012 were to be offset by projected increases in insurable earnings over 2011.



The chart presents a five-year trend comparison of required versus collected premium rates. The Funding Policy stipulates that the required rate and resulting revenue cover the current-year fully funded claim costs, administration expenses and transfer levies.



The 2012 premium requirement and rate were based on projected base revenue requirements and insurable earnings using the best information available in early Q4 2011. The surplus from premium revenue and the favourable variance in claim costs resulted in an increase in surplus from customer operations.

CLAIMS AND CLAIMS MANAGEMENT EXPENSES

Claim expenses are an estimate of current and future costs arising from compensable injuries and exposures occurring in 2012, and the future costs to administer these claims.

Claims and claims management expenses

- $70.9 million (7.8 per cent) lower than budget
- $1.9 million (0.2 per cent) lower than prior year

Claims and claims management expenses were below budget and prior year's costs due primarily to lower health care costs.

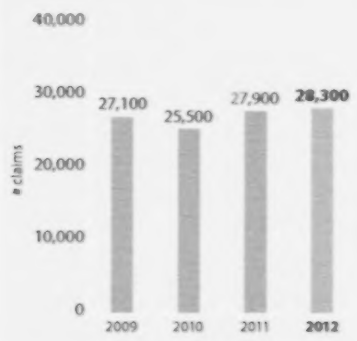
Claims and Claims Management Expenses

Lost-time claim volume

Lost-time claim (LTC) volume rose 1.4 per cent from 27,900 in 2011 to 28,300 in 2012.

The rise in LTCs coincided with an increase in covered workers of approximately 146,000. The 2012 LTC rate fell to a new low of 1.46 claims per 100 workers from 1.56 in 2011, a decrease of 6.4 per cent. Similarly, the disabling-injury rate (LTC + modified work-only cases = disabling injuries) fell by 3.2 per cent, to 2.73 disabling injuries per 100 workers.

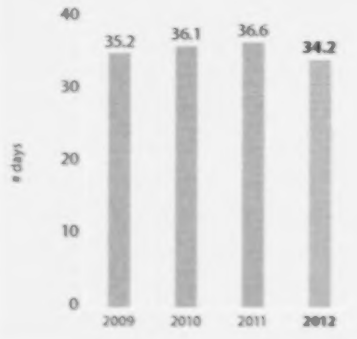
Lost-Time Claim Volume



Claim duration

Claim duration (the average elapsed time from injury to return to work) decreased significantly in 2012 to 34.2 days, from 36.6 days in 2011. The decrease was primarily due to increased modified work opportunities, which more than offset a modest increase in LTC volume.

Average Days Duration per Lost-Time Claim



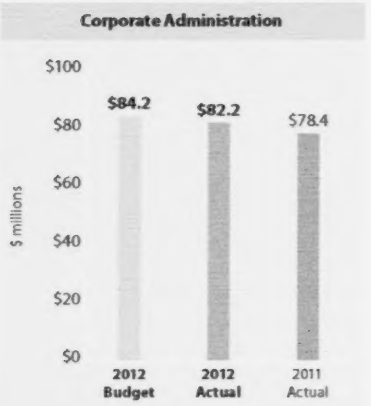
CORPORATE ADMINISTRATION

↘ $2.0 million (2.4 per cent) under budget

Corporate administration came in under budget due to effective expenditure management.

↗ $3.8 million (4.8 per cent) higher than prior year

The increase over 2011 reflects inflationary impacts. Corporate administration expenses exclude costs for administering claims (2012 – $93.3 million, 2011 – $84.8 million) that are included in claims management expenses.



Financial Management

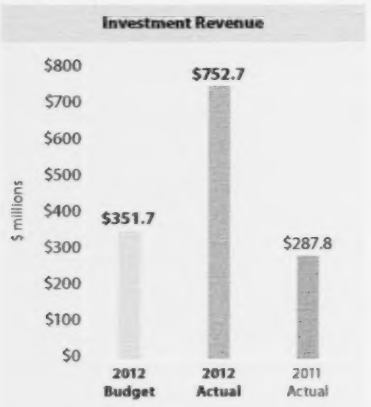
INVESTMENTS

Investment revenue

↗ $401.0 million (114.0 per cent) over budget

↗ $464.9 million (161.5 per cent) over prior year

Investment revenue was higher than budget primarily due to higher equity market and real estate returns. Equities and infrastructure contributed to the strong increase year over year. The portfolio earned a nominal market rate of return of 10.5 per cent for the year as compared to 4.4 per cent in 2011.



Investment returns played a key role in WCB's 2012 financial results. The following discussion provides an overview of the economic and market forces that had a direct impact on WCB's investment portfolio and returns.

Capital markets overview

2012 was another year of uncertainty and large swings in sentiment and capital market performance. Politics continued to play a large role as the fiscal cliff deadline in the U.S., and ongoing issues in peripheral European countries, dominated market news. As year-end approached, there were some signs of economic recovery in the U.S., particularly in the housing and energy markets. Fears of a sharp slowdown in China did not materialize and overall capital markets provided strong returns for most investors. With interest rates remaining very low, investors searched for other assets that provide yield and this resulted in price gains for non-government bonds, real estate, infrastructure and high dividend equities.

Portfolio performance

Market returns

The portfolio earned a nominal market rate of return of 10.5 per cent for 2012 (2.0 per cent above the policy benchmark) and 9.7 per cent for the four-year period ended December 31, 2012 (0.9 per cent above policy benchmark). The primary goal of the investment portfolio is to earn a real rate of return (nominal rate less inflation) that meets or exceeds the long-term actuarial real rate of return (referred to as the real discount rate). On this basis, the real rate of return for 2012 of 9.4 per cent (nominal rate of 10.5 per cent less inflation of 1.1 per cent) was significantly above the long-term actuarial required rate of 3.0 per cent.

For further information on WCB's Investments and Investment Policy, the *2012 Annual Investment Report* can be found online at www.wcb.ab.ca.

CLAIM BENEFIT LIABILITIES

At the end of each fiscal year, WCB determines its claim benefit liabilities for all injuries and illnesses occurring on or prior to that date as well as exposures that may result in future occupational disease claims. These liabilities represent the actuarial present value of all future benefit and related administration costs, excluding costs attributable to self-insured employers. As at December 31, 2012, claim benefit liabilities totalled $6,175.5 million, an increase of $547.0 million over 2011.

Significant changes in liabilities

The overall $547.0 million increase in claim benefit liabilities was attributable to the following:

($ millions)	2012 changes
Customer Operations related	
Provision for future costs of current-year injuries	$ 591.0
Benefit payments for prior years' injuries	(523.0)
	68.0
Financial Management related	
Liability for latent occupational diseases	686.4
Changes in actuarial methods and assumptions	(305.3)
Interest expense on the liability	242.5
Claims experience gain	(162.0)
Policy changes	17.4
	479.0
	$ 547.0

Latent occupational diseases

In 2011, the Actuarial Standards of Practice for Public Personal Injury Compensation Plans were revised to require actuarial valuations to include a provision for all long latency occupational disease claims expected to arise in the future as a result of past exposures. WCB adopted this provision in 2012 resulting in a $686.4 million increase to the liabilities.

Actuarial methods and assumptions

The following actuarial methods and assumptions changes decreased claim benefit liabilities by $305.3 million:

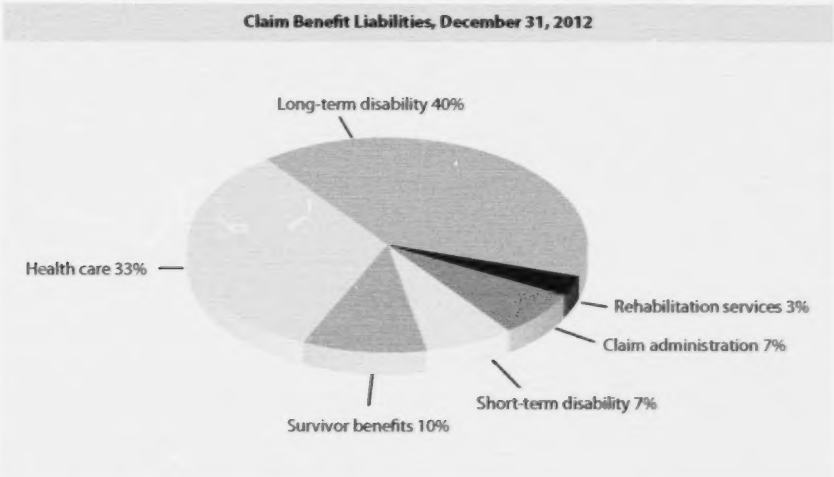
- The health care escalation assumption was revised to 5 per cent to reflect the result of an extensive study completed in 2012 ($232.0 million decrease).
- Updates to economic loss payment assumptions ($96.5 million decrease).
- The real rate of return for the 2011 valuation was set at 2 per cent up to 2015 and 3 per cent thereafter, reflecting low bond market yields. The short-term period has been extended to include 2016 as market yields have remained the same ($37.2 million increase).
- Updates to other assumptions ($14.0 million decrease).

Impact of claims experience

Differences between actual experience and what was expected in the prior valuation result in experience gains (which decrease the liability) or losses (which increase the liability). The impact of actual claims experience resulted in an overall gain of $162.0 million that arose from the following areas:

($ millions)	2012 impact
Actual claim costs less than expected	$ (68.5)
Actual cost-of-living and inflation different than expected	(59.8)
Experience gains from other sources	(33.7)
	$ (162.0)

The following chart shows the breakdown of the claim benefit liabilities as at December 31, 2012, by benefit type:



FUNDING POLICY

The Funding Policy is the primary instrument through which WCB manages its capital or fund structure and provides direction for setting premium rates and optimum funding level. Details of the Funding Policy may be found under WCB Information in the Policy and Legislation section of WCB's website at www.wcb.ab.ca.

Funding principles and objectives

The strategic aim of funding and investment policies is to strive for balance between financial risk (i.e., volatility), investment returns and funding stability. Specifically, the Funding Policy embodies these financial objectives:

- Minimize the risk of becoming unfunded.
- Minimize cost volatility to employers.
- Charge premiums that reflect the cost of current-year injuries.

The funding mechanisms that evolve from these objectives address those risks that may affect the financial stability of WCB—primarily investment volatility. Funding Policy rules are in place to minimize these risks, with ongoing monitoring and evaluation to ensure they continue to respond effectively to changing economic conditions.

Funding rules

The rules guiding financial decisions under the Funding Policy include the following:

- Premium rate design based on current-year fully funded claim costs (i.e., full cost recovery with no rate subsidization or smoothing).
- Minimum premium cost to employers set at 60 per cent of industry-rated premiums.
- Multiple target ranges to guide funding decisions and accommodate volatility.
- Surplus distribution or fund replenishment levy used as funding adjustment mechanisms.

These rules help achieve equity and consistency in the attribution of costs among employers and ensure intergenerational equity by requiring current employers to cover the cost of current-year injuries.

The Accident Fund represents all WCB assets available to discharge its legislative mandate. The funding status is expressed as a percentage of total liabilities as at the reporting date and is referred to as the Funded Ratio. The Accident Fund is considered fully funded when it is within the Funded Ratio target range of 114-128 per cent. Surplus assets exceeding the 128 per cent funding level are available for distribution to employers as a surplus distribution, whereas replenishment levies would be required if assets fall below 114 per cent.

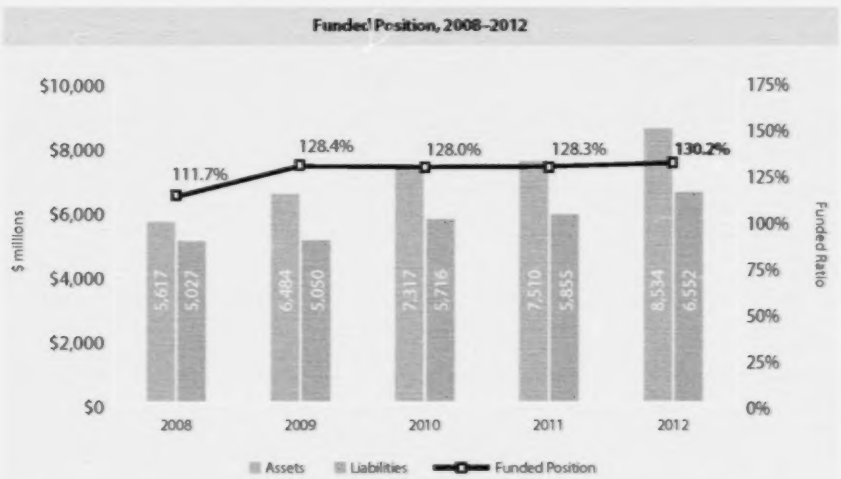
Funded Position

The major changes in Funded Position and the ending balance as at December 31, 2012 were:

($ millions)	Opening	2012 Change	Ending
Accumulated surplus for the year	$ 1,358.1	$ 369.0	$ 1,727.1
Occupational Disease Reserve maintenance funding	-	(32.8)	(32.8)
Accumulated surplus for the year	1,358.1	336.2	1,694.3
Accumulated other comprehensive loss	(40.7)	(42.7)	(83.4)
Fund Balance	1,317.4	293.5	1,610.9
Occupational Disease Reserve	337.7	32.8	370.5
Funded Position	$ 1,655.1	$ 326.3	$ 1,981.4

As at December 31, 2012, the Funded Ratio (total assets to total liabilities) was 130.2 per cent, compared to 128.3 per cent at the end of 2011. Viewed from another perspective, WCB has total assets of $8.5 billion to cover its total estimated liabilities of $6.6 billion. The increase in Funded Ratio is the result of positive investment returns in 2012. As a result of the strong returns, WCB will be paying a surplus distribution in 2013 of $85.5 million to employers.

The chart below presents the Funded Position from 2008 through 2012*.



2008 and 2009 are calculated based on Canadian Generally Accepted Accounting Principles; 2010-2012 are calculated based on International Financial Reporting Standards (IFRS), consistent with the accompanying financial statements and notes.

Risk Management

OVERSIGHT

Under WCB's corporate governance structure, the Board of Directors is responsible for overall risk management. The executive team, which has a mandate to identify and manage enterprise-level risk, is assisted by the Risk Management Committee, composed of a group of senior managers with responsibility for risk identification, assessment and mitigation at the operating level.

RISK ASSESSMENT

WCB has three primary processes for managing risk in the corporation. First, risk management is embedded as an inherent function of day-to-day business. Major projects and changes to business processes must go through a documented risk analysis to assess risk and identify mitigation plans and controls to lessen the likelihood or impact of these risks. The second process is to complete a systematic and comprehensive risk assessment of emerging corporate risks as they develop throughout the year. Finally, WCB also completes an annual corporate risk assessment that engages departmental management teams and senior managers to develop a comprehensive organizational risk register. The executive team prioritizes those risks with the highest potential residual impact to WCB and selects a number for comprehensive risk assessment and mitigation.

SIGNIFICANT RISKS

WCB has identified the following risk exposures that could have significant impact on the organization and its operations.

Benefit cost risk

Many of WCB's claim-related benefits are subject to external factors that have potentially significant impacts on the amount and duration of related benefit costs. These risks and uncertainties are driven largely by economic conditions such as health care inflation and utilization, and wage growth. Other factors may also arise through administrative precedents established through the appeals process, legislative changes or from new medical findings for occupational disease. All these factors add significant uncertainty to WCB's cost structure and may impose, over time, pressures on the funding model.

Fraud-related risk

Every year, WCB collects approximately one billion dollars in premium revenue and distributes or reserves a similar amount for claim benefits and administrative costs. The magnitude of these costs and the number of individuals and companies involved in these processes—approximately 155,000 employers, 199,000 claimants and thousands of service providers—creates inherent risk for fraud. WCB employs an extensive audit program to monitor the organization's ability to protect against fraud and implements additional controls, as required, to strengthen WCB's management of fraud risk.

Funding risk

Managing the components of WCB's overall Funded Position (Fund Balance and Occupational Disease Reserve) is a complex process that involves forecasting, liability projection, investment management and operational performance. Although these processes are within management's influence or control, many of the assumptions used in forecasting involve significant uncertainty regarding the future. Asset-liability management continues to be enhanced to provide better systems, tools, processes and information to enhance forecasting, financial planning and decision-making processes within WCB.

Investment risk

In its investment portfolio, WCB is exposed to financial risk, which includes market and portfolio risk, among others. Market risk is the risk that the fair value of investments and/or associated cash flows may change because of changing general economic conditions or events that broadly impact capital markets. Portfolio risk relates to specific composition and management of WCB's portfolio. Details of financial risks related to investments are discussed in Note 6, *Investment Risk Management*, in the accompanying financial statements and notes.

Premium risk

WCB has exposure to premium risk, which is the risk that premiums set for the coming fiscal period will not be sufficient to cover the operating costs in that year. These risks and uncertainties are largely driven by provincial economic conditions such as employment growth and wage escalation. To manage premium pricing risk, WCB has instituted a comprehensive forecasting program that leverages widely accepted economic-forecasting sources such as the Conference Board of Canada.

Technology risk

To support its core business processes, WCB uses a number of information systems for processing transactions and maintaining claimant and employer information. If these systems were to fail or were compromised, significant disruption to business processes and customer service could result. To mitigate technology risk, WCB maintains a business continuity plan, system controls and backup systems to prevent processing failures and provides extensive training to develop internal system expertise.

Implications of Accounting Policies and Estimates

Preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires management to make judgments, assumptions, and estimates that could materially affect the results of operations and financial condition of WCB. The following discusses those significant accounting policies that entail significant use of judgment and estimates. More detailed discussion may be found in the respective notes in the accompanying financial statements and notes.

Premiums

In advance of the fiscal year, and based on Funding Policy and projections in the Three-Year Plan, WCB estimates the total premium amount necessary to cover estimated claims costs, transfer levies, administration expenses and funding requirements. Because premium rates are set well in advance of revenue being realized, they reflect WCB's expectations of future macroeconomic and business conditions that will likely change before and during the fiscal period. Consequently, the premiums collected may be more or less than the estimated funding requirements. The difference could be significant in periods of economic volatility or uncertainty.

Investments

Investment assets are financial instruments and are measured at fair value at each reporting date. The primary purpose of investments is to maintain capital and generate investment income over the long term. Fair value measurement, which reflects realizable market value, could lead to significant volatility in the statement of financial position during periods of capital market turbulence. Details of the investment assets and inherent risks associated with holding such investments can be found in Note 5, *Investments*, and in Note 6, *Investment Risk Management*, in the accompanying financial statements and notes.

Derivatives

The fair value of a derivative contract is its change in value with respect to the change in the underlying security or reference index to which the contract is linked. Gains and losses on derivative contracts are recognized in income in the periods in which they arise. Since the fair value of a derivative is exposed to market changes, the underlying derivative positions could be volatile as well. Additional details may be found in Note 6, *Investment Risk Management*, in the accompanying financial statements and notes.

Valuation of claim benefit liabilities

WCB has significant obligations extending well into the future for benefits to injured workers. WCB applies the actuarial present-value methodology for its claim benefit liabilities. The actuarial process projects benefit cost streams into the future and discounts them to present value using a discount rate linked to the return on investment assets funding those liabilities. Measurement uncertainty is high because assumptions regarding the amount, timing and duration of the benefit commitments and future return on assets are difficult to predict accurately and are influenced by external factors outside management's control. Consequently, the selection of one assumption over another in estimating claim benefit liabilities could have a material impact on the liability valuation.

Valuation of employee benefit liabilities

WCB has applied defined benefit accounting for employee pension plans, which requires an actuarial determination of benefit obligations extending well into the future for pension benefits to employees. The actuarial process projects benefit cost streams into the future and discounts them to present value using a discount rate linked to market yields on high quality corporate bonds with similar characteristics as the liabilities. Measurement uncertainty is high because assumptions regarding the amount, timing, and duration of future benefit commitments are difficult to predict accurately and are influenced by factors outside management's control. Details of WCB's multi-employer and sponsored defined benefit plans may be found in Note 10, *Employee Benefits*, in the accompanying financial statements and notes.

Governance and Compliance

Legislative authority

Under the authority of the *Workers' Compensation Act*, WCB is a provincial board-governed organization that operates independently while reporting to the Minister and Associate Minister of Human Services.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICOFR) to provide reasonable assurance regarding the reliability of the entity's financial reporting and the preparation of its financial statements in accordance with IFRS. WCB has developed a framework and plan for the overall ICOFR program. The framework is based on best practices under the COSO[i] and COBIT[ii] frameworks. The ICOFR program is assisted by WCB's Management Audit Services group and is reviewed by the Office of the Auditor General during the annual financial audit. The plan is updated annually to include a review of previously completed control assessments, and the completion of new control assessments, taking into account both risk and materiality.

[i] *Committee of Sponsoring Organizations of the Treadway Commission, which developed a governance framework for internal control.*

[ii] *Control Objectives for Information and Related Technology, a collection of best practices for IT governance, control and assurance.*

Framework of accountability reporting

In addition to the Annual Report, WCB is accountable to stakeholders through a number of key performance reports that form the foundation of its framework of accountability, as follows:

- Corporate scorecard, which reports progress on the organization's annual corporate objectives, published quarterly with final results reported in the Annual Report.
- Supplementary Measures Report, which shares additional measures that reflect information of interest to stakeholders and agreed to by the Ministry and WCB. A sample of these measures is reviewed by the Office of the Auditor General.
- Investment Report, which documents the organization's investment performance and plans.

These reports can be viewed at www.wcb.ab.ca.

Business planning

An important aspect of financial planning and budgeting is linkage to WCB's strategic plan and the resulting corporate objectives developed each year in support of the strategic plan. These objectives and the related performance indicators set the direction for the organization and identify the significant areas of focus for the coming year. The 2013 Budget and 2013–2015 Financial Plan establishes the foundation for appropriate resource allocation for achieving the corporate objectives. A copy of the plan can be viewed at www.wcb.ab.ca.

Emerging Issues

INTERNATIONAL FINANCIAL REPORTING STANDARDS

WCB prepares its financial statements under International Financial Reporting Standards (IFRS) and monitors the standard-setting landscape for key accounting topics that may have significant implications for WCB's results. Once the official standards are issued, WCB will analyze the key changes to ensure that major impacts are understood and implemented as required in order to ensure high-quality financial reporting under IFRS.

- **Insurance Contracts**
  Current deliberations on the response to the IFRS 4 exposure draft consider a number of changes, primarily related to measurement of claim benefit liabilities. Most significant for WCB is the rate used to discount claim benefit cash flows. This rate might be based on the insurer's current yield curve for the actual portfolio of assets held or a reference portfolio of assets with similar characteristics as the liabilities. These requirements may result in volatility of claim benefit liabilities and the funded ratio, particularly during periods of interest rate instability, with further implications for funding decisions. A re-exposure draft is targeted for 2013, but release of the final standard and the effective date are both unknown at this time.
- **Leases**
  Under existing IAS 17, operating leases are treated as rental expense as incurred. The new leasing standard proposes to recognize all leases (both finance and operating) in the statement of financial position as assets and corresponding liabilities. Current deliberations are focused on the pattern of expense recognition for operating leases. A re-exposure draft is expected to be released in 2013. No date has been announced for a final draft or a target effective date.

Looking Ahead

Looking forward to 2013, WCB will be tasked to manage its business in light of global and provincial economic uncertainty. WCB's business priorities are to build on operational and financial strategies that have contributed to its organizational success. Management will closely monitor economic and operating trends to develop proactive and measured responses to emerging business issues.

Economic outlook

The outlook for 2013 is saddled with new opportunities and challenges as a result of transitioning global and provincial economic landscapes. Over the past 12 months, there has been a considerable easing in global macroeconomic risk. Supportive policies from the European Central Bank have helped ease some of the pessimism related to their sovereign debt issues. The previous actions of corporate and consumer deleveraging in the U.S. have left the world's largest economy fundamentally stronger and with optimism for sustained economic growth heading into 2013. While there appear to be more positive economic signals and a general reduction in downside risk, the global economic outlook continues to call for subdued growth in most mature economies. Central banks and policymakers will need to balance the trade-off between continued economic stimulus with managing their expanding sovereign debt levels.

While the global economy seems to have reduced some of the downside risk from years past, Alberta's provincial economy now faces several unique challenges that could weigh on near-term growth. In particular, supply bottlenecks from insufficient pipeline capacity coupled with increased energy competition from the U.S. have forced Alberta energy exports to trade at a significant discount to major North American prices, prices which already trade at a discount to world prices. These diminished energy prices have strained public revenue streams, and in turn have forced the provincial government to find ways to minimize net cash outflows via spending and cost reductions. For the moment, the energy price discounts are primarily affecting only public revenue; however, the potential exists to diminish aggregate employment. Specifically, growth in industries dependent on government contracts will be uncertain moving forward. Employment growth in the public sector will likely be stagnant, and if the price discount rises to a level that becomes prohibitive to Alberta's energy sector, then there could be a significant impact on employment stemming from negative trickledown effects to all sectors of the economy.

An economic recovery appears to be underway in the U.S., while Europe seems to have mitigated much of its contagion risk and that of a deep recession. An improving U.S. economy coupled with strong growth in emerging markets will offset the impact of Europe. The Canadian economy has been slowing through the second half of 2012 and seems poised to muddle through 2013 with positive but still lackluster economic growth. Overall, this continues to be an environment that is cautiously optimistic for overall positive global growth.

Weighing improved optimism in the global economy against the challenges faced at the provincial level, the outlook for Alberta is that the energy supply and price related challenges will hinder short-term economic growth. This is likely a short-term problem and should only result in a moderation of employment and wage growth over the next few years. Baseline economic assumptions call for economic growth around 2.7 per cent and employment growth of 1.8 per cent in 2013. While this marks a departure from the heights of Alberta's recent expansion, provincial growth remains above the forecasted national level.

Capital market outlook

The capital market outlook remains uncertain heading into 2013. As predicted last year, equity markets rebounded in 2012. While another year of strong equity market performance is possible, after four years of strong markets since the global financial crisis in 2008/2009, it seems that modest equity returns are a more likely scenario for 2013. Bond yields have been inching upwards but continue to be near historic low levels, which will translate into very modest returns from bond investments over the next three to five years.

In the longer term, the key issue for markets and for investors like WCB, which have inflation-sensitive liabilities to pay, is the probability of periods of high inflation. The stimulus, both monetary and fiscal, that has been and

continues to be injected into the financial system and the global economy, may lead to a period of higher-than-expected inflation. This issue is probably still a few years away, as there is currently too much slack in labour markets (high unemployment and underemployment) and low levels of capacity utilization for inflation to be a near-term concern.

Forecasting short-term market performance is difficult at best. Studies show that investors typically cause themselves more harm than good by trying to time short-term capital market movements. WCB is a long-term investor with a strong financial position. This allows for patience and the ability to stay committed to proven investment principles and beliefs.

The total portfolio return for 2013 is budgeted at 5 per cent for planning purposes; however, continued market volatility suggests the actual returns for 2013 may be significantly different from the planning assumptions.

Business outlook

Customer operations

On the Customer Operations front, the strategic plan continues to keep WCB anchored on business fundamentals — a focus on return to work and a commitment to decision fairness.

Modified work opportunities continued to grow in 2012 as more employers were able to offer modified work to their injured employees. WCB's modified work program has helped injured workers take advantage of on-the-job rehabilitation, while giving employers the chance to support and keep their valued employees. In 2013, the momentum on modified work is expected to continue and grow. The focus will continue on return-to-work outcomes, suitable modified work and return to work with alternate employers whenever pre-injury employers no longer have jobs available.

The frequency with which individuals need help finding a new job (vocational rehabilitation services and benefits) declined in 2012 as the economy continued to improve. Provided there is continued economic growth in the province, it is reasonable to anticipate little growth in vocational rehabilitation benefits in 2013.

The commitment to decision fairness has also had a significant impact on results. Decision accuracy ensures clients receive the right benefits and services at the right time, resulting in better outcomes, stronger client relations and more effective service delivery.

Looking ahead, WCB will continue to work closely with injured workers, physicians, employers, unions and others to create return-to-work opportunities customized to meet each worker's unique needs while also ensuring a fair process, fair outcome and positive relationships. The main goal continues to be to ensure workers return to work as fairly, quickly, safely and successfully as possible.

Financial management

Financial management is based on an investment policy derived from asset-liability studies that consider the year-by-year liabilities of the fund together with the probabilities of associated investment returns. This results in an allocation to stocks, bonds and other assets that changes moderately from year to year and generally performs well, notwithstanding some volatility from year to year.

The Investment Policy's long-term direction is toward more inflation-sensitive assets, which will lower volatility further, yet provide a level of return over the long run, which will contribute to the continued financial strength of the fund.

2013 premium rate

In 2013, the average premium rate decreased to $1.12 per $100.00 of insurable earnings. Insurable earnings are forecast to grow by 2.7 per cent to $95.0 billion, based on the overall assumption of a slow and steady recovery, assuming moderately higher wages and employment.

With all Workers' Compensation Boards in Canada having announced their premium rates for 2013, WCB continues to have the lowest average rate. Alberta's premium rates have been the lowest in Canada since 2006.

Outlook for financial condition

At the end of 2012, WCB's funded ratio was 130.2 per cent (assets over liabilities). Given economic uncertainty and the volatility of investment returns, it is difficult to determine, with any certainty, WCB's funding position into the future. Despite these uncertainties, WCB's broad based risk management framework has been designed to mitigate, where possible, these economic and capital market uncertainties.

Facing the future

The Alberta economy experienced continued growth in 2012, with Alberta employment and WCB covered worker figures up over 2011. In response to favourable momentum within the macro environment, WCB witnessed encouraging improvements in the area of return to work, particularly as modified work opportunities continued. Part of the success realized in 2012 stems from the sustained and proactive dialogue between WCB staff, injured workers and employers regarding the value of on-the-job rehabilitation. Keeping workers and employers engaged in the case planning process is vital to the success of return-to-work initiatives. It will remain a central strategic focus throughout 2013. Moving forward, WCB expects to:

- Continue with timely, suitable and safe return-to-work solutions within the context of specific economic sectors;
- Maintain a strong focus on effective financial management strategies to manage a balanced fund that protects the security of worker benefits; and
- Work with Alberta's employers on developing effective return-to-work programs and on fostering accountability through pricing initiatives.

Economic uncertainty aside, 2013 looks positive as WCB works with its partners to leverage the economy for the benefit of the workers' compensation system.

WCB-Alberta

2012 Financial Statements

For the year ended December 31, 2012

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Responsibility for Financial Reporting

The financial statements of the Workers' Compensation Board – Alberta were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting principles consistent with International Financial Reporting Standards.

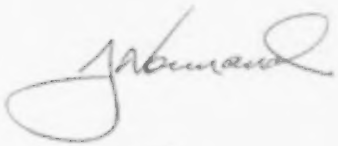
In discharging its responsibility for the integrity and fairness of the financial statements, management maintains the necessary internal controls designed to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded. The effectiveness of controls over financial reporting was assessed and found to provide reasonable assurance that internal controls at December 31, 2012 operated effectively with no material weaknesses in the design or operation of the controls.

The Board of Directors is responsible for overseeing management in the performance of financial reporting responsibilities and has approved the financial statements included in the annual report.

The Board of Directors is assisted in its responsibilities by its Audit Committee. This committee reviews and recommends approval of the financial statements and meets periodically with management, internal and external auditors, and actuaries concerning internal controls and all other matters relating to financial reporting.

Eckler Ltd. has been appointed as the independent consulting actuary to the WCB. Their role is to complete an independent actuarial valuation of the claim benefit liabilities included in the financial statements of the WCB and to report thereon in accordance with generally accepted actuarial practice.

The Office of the Auditor General, the independent auditor of the WCB, has performed an independent audit of the financial statements of the WCB in accordance with Canadian generally accepted auditing standards. The Independent Auditor's Report outlines the scope of this independent audit and the opinion expressed.



Bob Normand
Chair, Board of Directors
Workers' Compensation Board – Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board – Alberta

Ron J. Helmhold, CA
Chief Financial Officer
Workers' Compensation Board – Alberta

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the Board of Directors of the Workers' Compensation Board – Alberta

Report on the Financial Statements

I have audited the accompanying financial statements of the Workers' Compensation Board – Alberta, which comprise the statement of financial position as at December 31, 2012, and the statements of comprehensive income, changes in funded position and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Workers' Compensation Board – Alberta as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Merwan N. Saher, FCA

Auditor General
April 30, 2013
Edmonton, Alberta

Eckler
CONSULTANTS + ACTUARIES

Actuarial Statement of Opinion

on the Valuation of the Benefits Liabilities of the Workers' Compensation Board – Alberta as at December 31, 2012

I have completed the actuarial valuation of the benefits liabilities of the Workers' Compensation Board – Alberta (WCB) for the financial statements of the WCB as at December 31, 2012 (the "valuation date").

In my opinion, the actuarial liabilities of $6,175.5 million make reasonable provision for future payments for short term disability, vocational rehabilitation, long term disability, survivor and health care benefits with respect to claims which occurred on or before the valuation date, and for all occupational disease claims expected to arise after the valuation date as a result of exposures incurred in the workplace on or before the valuation date in respect of occupational diseases with a long latency period that are recognized by the WCB. This amount provides for future claims administration costs, but does not include a provision for benefits and payments that are on a self-insured basis. The introduction of the provision for potential latent occupational diseases represented an increase of $686.4 million in the benefits liabilities.

The valuation was based on the provisions of the *Workers' Compensation Act* of Alberta and on the WCB's policies and administrative practices in effect at the time of the valuation. The impact of the recent changes in the Act for post-traumatic stress disorder and in policy for the change in the cost of living adjustment has been considered.

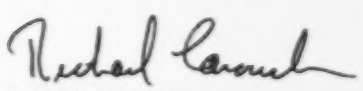
The data on which the valuation is based were provided by the WCB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and that the data are consistent with WCB's financial statements. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

The economic assumptions adopted for purposes of computing the liabilities are consistent with the WCB's funding and investment policies. For this valuation, an annual real rate of return of 2.00% for 2013 to 2016 and 3% thereafter was used to discount expected payments subject to inflation, a change from the 2.00% for 2013 to 2015 and 3.00% thereafter in the previous valuation. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index (CPI) of 2.50%, increase for benefits subject to cost of living adjustments at CPI minus 0.50%, as well as health care costs and vocational rehabilitation benefits assumed to grow at annual rates of 5.00% (6.00% for the previous valuation) and 3.50 respectively. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WCB's claims experience, mortality and other assumptions. In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.

Changes to the actuarial basis (i.e. actuarial methods and assumptions) caused liabilities to decrease by $305.3 million. The revision of the real rate of return and health care escalation assumptions represented an increase of $37.2 million and a decrease of $232.0 million respectively, changes to assumptions for valuing economic loss payments represented a decrease of $96.5 million, while updates made to other assumptions decreased liabilities by $14.0 million. Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at the valuation date, of which this statement of opinion forms part.

In my opinion, the amount of the benefits liabilities makes appropriate provision for all personal injury compensation obligations and the financial statements fairly represent the results of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.



Richard Larouche, FSA, FCIA
Actuary
Eckler Ltd.
April 23, 2013

Workers' Compensation Board – Alberta

Statements of Financial Position

As at December 31

($ thousands)	Notes	2012	2011
ASSETS			
Cash and cash equivalents	19(a)	$ 215,908	$ 368,548
Trade and other receivables	19(b)	72,588	51,790
Investments	5	8,174,948	7,017,791
Property, plant and equipment	7	47,961	47,070
Intangible assets	8	22,370	24,481
		$ 8,533,775	$ 7,509,680
LIABILITIES			
Trade and other liabilities	19(c)	$ 46,792	$ 46,858
Surplus distributions	19(d)	85,733	850
Safety rebates	19(e)	90,339	73,327
Employee benefits	10	154,002	105,058
Claim benefits	11	6,175,500	5,628,500
		6,552,366	5,854,593
FUNDED POSITION			
Fund Balance	4	1,610,909	1,317,387
Occupational Disease Reserve	4	370,500	337,700
		1,981,409	1,655,087
		$ 8,533,775	$ 7,509,680
LEASE AND OTHER COMMITMENTS	9		
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Approved by the Board of Directors on April 30, 2013:

Bob Normand
Chair, Board of Directors
Workers' Compensation Board – Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board – Alberta

The accompanying notes are an integral part of these financial statements.

Workers' Compensation Board – Alberta

Statements of Comprehensive Income

Year Ended December 31

($ thousands)	Notes	2012 Budget	2012 Actual	2011 Actual
REVENUE				
Premium revenue	13	$ 1,066,525	$ 1,157,220	$ 1,021,702
Investment income	16	378,159	782,057	310,800
		1,444,684	1,939,277	1,332,502
EXPENSES				
Claims expense	14	811,577	738,961	748,883
Claims management	14, 15	101,888	103,713	95,626
Interest expense on claim benefit liabilities	11	242,200	242,500	228,800
Remeasurement of claim benefit liabilities	11	(30,500)	236,461	35,714
Corporate administration	15	84,191	82,190	78,381
Injury reduction	19(f)	47,719	46,768	45,628
Investment management expense	16	26,510	29,425	23,020
Interest on employee benefit liabilities	10	2,846	5,377	4,486
		1,286,431	1,485,395	1,260,538
OPERATING SURPLUS		158,253	453,882	71,964
Funding policy surplus distributions	4, 19(d)	-	(84,841)	1,431
NET FUNDING SURPLUS		158,253	369,041	73,395
OTHER COMPREHENSIVE LOSS				
Remeasurement of employee benefit liabilities	10	-	(42,719)	(19,236)
TOTAL COMPREHENSIVE INCOME		$ 158,253	$ 326,322	$ 54,159

The accompanying notes are an integral part of these financial statements.

Workers' Compensation Board – Alberta

Statements of Changes in Funded Position

As at December 31

($ thousands)	Notes	2012	2011
FUND BALANCE			
Accumulated surplus			
Balance, beginning of year		$ 1,358,054	$ 1,305,659
Net funding surplus		369,041	73,395
Transfer to Occupational Disease Reserve		(32,800)	(21,000)
		1,694,295	1,358,054
Accumulated other comprehensive loss			
Balance, beginning of year		(40,667)	(21,431)
Other comprehensive loss		(42,719)	(19,236)
		(83,386)	(40,667)
Fund Balance, end of year		1,610,909	1,317,387
OCCUPATIONAL DISEASE RESERVE	4		
Balance, beginning of year		337,700	316,700
Transfer from Fund Balance		32,800	21,000
Occupational Disease Reserve, end of year		370,500	337,700
		$ 1,981,409	$ 1,655,087

The accompanying notes are an integral part of these financial statements.

Workers' Compensation Board – Alberta

Statements of Cash Flows

Year Ended December 31

($ thousands)	2012	2011
OPERATING ACTIVITIES		
Cash inflows (outflows) from business operations		
Employer premiums	$ 1,174,681	$ 1,005,468
Benefits to claimants and/or third parties on their behalf	(655,870)	(644,982)
Administrative and other goods and services	(206,476)	(189,586)
Injury reduction program	(46,768)	(45,628)
Net cash from operating activities	265,567	125,272
INVESTING ACTIVITIES		
Cash inflows (outflows) related to investment assets		
Interest income	84,442	82,098
Dividend income	47,474	62,493
Other investment income	30,674	4,715
Gains on sale of investments	146,980	94,129
Proceeds (payments) on settlement of derivatives	38,097	(61,091)
Investment management expense	(23,539)	(18,374)
Sale (purchase) of investments at cost	(389,358)	137,957
Purchase of investments from reinvested income	(339,464)	(175,944)
Cash outflows related to operating assets		
Property, plant and equipment	(7,150)	(9,078)
Computer software	(6,363)	(7,887)
Net cash from investing activities	(418,207)	109,018
FUNDING ACTIVITIES		
Cash outflows from funding activities		
Surplus distributions	-	(227,847)
Net cash used for funding activities	-	(227,847)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(152,640)	6,443
Cash and cash equivalents, beginning of year	368,548	362,105
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 215,908	$ 368,548

The accompanying notes are an integral part of these financial statements.

1. REPORTING ENTITY

The Workers' Compensation Board – Alberta (WCB) is a provincial board created by legislation in 1918. As a statutory corporation, WCB administers the workers' compensation system for the province of Alberta under the authority of the *Workers' Compensation Act* (the Act). WCB's corporate head office is located in Edmonton, Alberta, with operations exclusively within the province of Alberta. WCB's legislated mandate is to provide disability benefits to workers who sustain injuries in the course of employment.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied in the preparation of the financial statements for all years presented, unless otherwise indicated.

GENERAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) in effect as at December 31, 2012.

These financial statements have been prepared on a historic cost basis except for investments carried at fair value. The principal accounting policies applied in the preparation of the financial statements on an IFRS basis are set out below.

Foreign currency translation

WCB's financial statements are presented in Canadian dollars, which is also the functional currency. All financial information presented has been rounded to the nearest thousand, unless otherwise stated.

Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the statement of financial position. Exchange differences arising from settlement of monetary items are included in income in the period in which they arise. Non-monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect when those transactions occurred.

Measurement uncertainty and use of accounting estimates

The preparation of financial statements in accordance with IFRS requires the use of estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods presented. Some accounting measurements require management's best estimates, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action. Employee benefit liabilities (Note 10), claim benefit liabilities (Note 11), and the Partnerships in Injury Reduction rebates accrual (Note 13) are the most significant items that are based on accounting estimates. Actual results could differ from the estimates determined by management in these financial statements. These differences, which may be material, could require adjustment in subsequent reporting periods.

Financial statement presentation

WCB presents its statement of financial position in order of liquidity. The statement of comprehensive income reports operating results arising from WCB's primary activities: core business operations including risk underwriting, premium assessment and collection, benefit processing, injury treatment and vocational rehabilitation, and financial management including investment portfolio management and claim benefit liability valuation. Administration expense is presented in the statement of comprehensive income by function. Other comprehensive loss primarily consists of net changes in remeasurement of post-employment defined benefit plan liabilities.

In addition to performance reporting, the statement of comprehensive income also reports funding actions arising from the application of Funding Policy. Such actions include appropriations of excess surplus for distribution back to employers, or collection of special levies required to replenish funding deficits, as prescribed by Funding Policy established by the Board of Directors.

Cash equivalents

Cash equivalents include short-term, liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and short-term investments held by custodians are not available for general use, and accordingly are included in investments.

Finance expense

Finance expense comprises primarily recognition of interest (i.e., time value of money) inherent in discounted liabilities. Significant discounted liabilities include claim benefit liabilities, employee benefit plans and lease obligations.

Comparative figures

Certain comparative figures have been restated and/or reclassified where required to conform to the current year's accounting treatment.

SPECIFIC ACCOUNTING POLICIES

To facilitate a better understanding of WCB's financial statements, specific accounting policies are disclosed in the related notes to these financial statements:

Note	Topic	Page
5	Investments	52
7	Property, plant and equipment	58
8	Intangible assets	60
9	Lease and other commitments	61
10	Employee benefits	62
11	Claim benefit liabilities	65
13	Premium revenue	69
16	Investment income and expense	72

3. ACCOUNTING POLICY CHANGES

STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 10 *Consolidated Financial Statements*
IFRS 11 *Joint Arrangements*
IFRS 12 *Disclosure of Interests in Other Entities*
In May 2011, the IASB issued a suite of interrelated standards (collectively referred to as the consolidation suite) that provide new and expanded guidance on when and how an entity accounts for its interests in other entities, including subsidiaries, and other unconsolidated entities. These standards, which are mandatorily effective January 1, 2013, must be adopted as a package at the same time. Earlier adoption is encouraged.

These standards apply to WCB by virtue of its structured investments where control is not determined through voting power but through contractual rights (i.e., in certain pooled funds and limited partnerships). Adoption of these standards, if applicable, is not expected to have a material impact on WCB's financial reporting.

IFRS 13 *Fair Value Measurement*
In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* to establish a framework for measuring and reporting on fair value within a single standard. Overall, IFRS 13 prescribes additional disclosures on the use of valuation techniques and unobservable inputs used in fair value measurements. These requirements are effective for reporting periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 is not expected to have a material impact on WCB's financial reporting.

Amendments to IAS 32 *Financial Instruments — Presentation* and IFRS 7 *Financial Instruments — Disclosures: Offsetting Financial Assets and Financial Liabilities*
In December 2011, the IASB issued the referenced amendments to provide new guidance on when an entity may offset financial assets and financial liabilities on the statement of financial position, and to prescribe disclosure of information to enable users of financial statements to evaluate the effects of netting arrangements. These requirements are effective for reporting periods beginning on or after January 1, 2014, with earlier application permitted. These amendments are not expected to be material with respect to WCB's financial position or results of operations.

4. FUNDING

ACCIDENT FUND

The Act stipulates the creation of an Accident Fund (the Fund) holding sufficient funds for the payment of present and future compensation. The Fund is fully funded when the total assets equal or exceed total liabilities. This Funded Position (or net assets) represents the current funding status of the Fund.

The Funded Position is maintained through two reserves within the Accident Fund: the Fund Balance and the Occupational Disease Reserve (ODR). The Fund Balance represents accumulated net operating surpluses retained against financial uncertainty. The ODR was established through an appropriation from the Fund Balance to provide for costs arising from latent occupational injury or disease where a causal link to the workplace has not been established, but may be established in the future. The ODR is maintained at six per cent of claim benefit liabilities in each year through a transfer from or to the Fund Balance.

FUNDING POLICY AND CAPITAL MANAGEMENT

Since the Act does not provide for an ownership-based capital structure, WCB views its available capital resources as synonymous with its Funded Position. The primary objective in managing the Funded Position is to mitigate the risk of being unfunded, while a secondary objective is to minimize premium rate volatility caused by investment and claim benefit liability risk. WCB manages the financial status of the Accident Fund by monitoring the Funded Position and making funding decisions in accordance with the Funding Policy.

The Funding Policy sets a target zone of 114 – 128 per cent for the Funded Ratio (total assets divided by total liabilities) to guide funding decisions. When the Funded Ratio falls below the target zone, special funding requirements are included in premium rates. When the Funded Ratio is above the target zone, surplus distributions may be paid. There were no changes to the described Funding Policy or capital management practices during the year.

($ thousands)	**2012**	2011
Accident Fund		
Total assets	$ 8,533,775	$ 7,509,680
Less:		
Total liabilities	6,552,366	5,854,593
Funded Position	$ 1,981,409	$ 1,655,087
Funded Ratio	130.2%	128.3%

5. INVESTMENTS

ACCOUNTING POLICY

WCB elected early adoption of IFRS 9 *Financial Instruments: Classification and Measurement* as at the date of transition to IFRS.

WCB's portfolio investments are designated at fair value through income and are managed in accordance with portfolio management objectives and Investment Policy. WCB utilizes trade-date accounting (date when transactions are entered into rather than when they are settled) for all purchases and sales of financial instruments.

Upon initial recognition, debt and equity securities are recognized at their settlement value (including transaction costs net of any premium or discount at date of purchase, if applicable). Subsequent fair value measurement changes are recognized in income in the period in which they arise.

Derivatives are initially recognized at fair value and subsequently remeasured at the financial statement date. All gains and losses resulting from remeasurement at fair value are recognized in investment income in the respective periods in which they arose.

Net cash, receivables and payables held within the investment portfolio are carried at amortized cost.

Valuation of financial instruments

The fair value of financial instruments as at the reporting date is determined as follows:

Debt and equity securities

- Publicly traded securities are based on their closing bid prices or the average of the latest bid/ask prices quoted by independent securities valuation companies.
- Non-publicly traded pooled funds are valued at the net asset values of the funds, which reflect the fair values of fund assets less fund liabilities.
  - The fair value of infrastructure and real estate funds are based on independent annual appraisals, net of any liabilities against the fund assets.
  - The fair value of commercial mortgage funds is based on the market interest rate spread over Bank of Canada bonds with a similar term to maturity.

Derivative contracts

- Written forward foreign-exchange contracts are valued based on the change in the underlying exchange rate relative to the Canadian dollar.
- Tradable equity index futures, whose prices change according to the underlying market index, are valued based on exchange-listed prices.
- Bond futures, whose prices change according to the underlying bond price, are valued based on exchange-listed prices.

INVESTMENT PORTFOLIO HOLDINGS

WCB's portfolio investments are all classified at fair value through income. The table in this section presents the fair value of WCB's investments as at December 31, together with their classifications under the fair value measurement hierarchy. Note 16 *Investment Income and Expense* provides a breakdown of investment income by type.

Fair value classification hierarchy

The fair value of WCB's investments recorded on the Statement of Financial Position was determined using one of the following valuation techniques:

Level 1 The fair value is based on quoted prices in active markets for identical assets or liabilities. This level includes equity securities and derivative contracts that are traded in an active exchange market.

Level 2 The fair value is based on inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs based on observable market data. Includes pooled funds invested in traded securities, as well as derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 The fair value is based on unobservable inputs that are significant to the fair value of the assets or liabilities and have little or no market activity. This level includes financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes pooled funds invested in debt securities, private equity, real estate and infrastructure.

The table below summarizes the basis of fair value measurements for financial assets held in WCB's investment portfolio:

	Fair value through income				Amortized		
($ thousands)	Level 1	Level 2	Level 3	Fair Value	Cost[5]	2012	2011
Fixed income							
Nominal bonds	$ 1,976	$ 1,977,500	$ 147,622	$ 2,127,098	$ 27,138	$ 2,154,236	$ 1,843,154
Mortgages[1]	-	-	484,776	484,776	-	484,776	424,294
	1,976	1,977,500	632,398	2,611,874	27,138	2,639,012	2,267,448
Equities							
Domestic	539,327	262,573	-	801,900	3,193	805,093	658,783
Foreign[2]	1,376,933	889,358	-	2,266,291	55,935	2,322,226	1,957,472
	1,916,260	1,151,931	-	3,068,191	59,128	3,127,319	2,616,255
Inflation-sensitive							
Real estate[3]	187,594	3,955	961,059	1,152,608	649	1,153,257	1,023,708
Infrastructure[4]	321,651	-	370,124	691,775	7,692	699,467	533,299
Real-return bonds	-	569,837	-	569,837	1,174	571,011	547,318
	509,245	573,792	1,331,183	2,414,220	9,515	2,423,735	2,104,325
	2,427,481	3,703,223	1,963,581	8,094,285	95,781	8,190,066	6,988,028
Derivatives	-	(15,118)	-	(15,118)	-	(15,118)	29,763
	$ 2,427,481	$ 3,688,105	$ 1,963,581	$ 8,079,167	$ 95,781	$ 8,174,948	$ 7,017,791

[1] *Mortgages include commercial mortgages and multi-unit mortgages, but do not include single-dwelling residential mortgages.*

[2] *Foreign equities comprise U.S., EAFE (Europe, Australasia and Far East), and Emerging Market mandates.*

[3] *Real estate investments include pooled funds invested in commercial properties.*

[4] *Infrastructure consists of a pooled fund invested in infrastructure projects.*

[5] *Includes portfolio cash, receivables and payables whose cost approximates fair value.*

Transfers between Levels 1 and 2

There were no material transfers between Level 1 and Level 2 during 2012.

Reconciliation of Level 3 activity

($ thousands)	Fixed Income	Real Estate/ Infrastructure	2012	2011
Balance, beginning of year	$ 454,836	$ 1,033,294	$ 1,488,130	$ 913,992
Fair value gains (losses) recognized in income	15,875	150,546	166,421	140,232
Purchases of Level 3 investments	162,508	249,318	411,826	466,696
Sale/settlement of Level 3 investments	(822)	(101,974)	(102,796)	(32,790)
Balance, end of year	$ 632,397	$ 1,331,184	$ 1,963,581	$ 1,488,130

6. INVESTMENT RISK MANAGEMENT

INVESTMENT GOVERNANCE

The Board of Directors is ultimately responsible for overall strategic direction and governance of the investment portfolio through its review and approval of the Investment Policy and ongoing monitoring of investment risks, performance and compliance.

WCB management is responsible for monitoring investment performance, recommending changes to the Investment Policy, and selecting fund managers. WCB retains independent consultants to benchmark the performance of its fund managers, and to advise on the appropriateness and effectiveness of its Investment Policy and practices.

KEY FINANCIAL RISKS

The primary financial risk for WCB is the risk that, in the long term, returns from its investments will not be sufficient to discharge all obligations arising from its claim liabilities. In order to manage this funding risk, risk management for investments has been integrated with risk management of liabilities. WCB's primary risk mitigation strategy is effective execution of its Investment Policy. The Investment Policy target asset mix, and associated risk and return characteristics, have been established to provide guidelines for a broad investment strategy, as well as specific approaches to portfolio management. The Investment Policy also calls for maintaining a well-diversified portfolio, both across and within asset classes, and engaging fund managers who represent a broad range of investment philosophies and styles, operating within a rigorous compliance framework.

WCB has identified key areas of investment risk that directly affect the sufficiency of its investments to fund current and future claim obligations:

- **Market risks** – These risks include movements in equity market prices, interest rates, credit spreads and foreign currency exchange rates.
- **Portfolio risks** – These risks relate to specific composition and management of WCB's portfolio and include liquidity risk, securities lending risk, counterparty default risk and derivatives risk.

The following sections describe these risks, WCB's exposures, and their respective mitigation strategies.

Equity market risk

WCB is exposed to equity market risk, which is the risk that the fair value of its investments in publicly traded shares will fluctuate in the future because of price changes. WCB's mitigation strategy for equity market risk is to apply disciplined oversight of investment activities within a formal investment control framework that has been reviewed and validated by independent experts to ensure continuous compliance with approved policies and practices.

The table below presents the effect on WCB's equity mandates of a significant adverse change[1] in the key risk variable — the portfolio weighted average (asset class) benchmark:

($ thousands)	**2012**		2011	
Equities	**1 std dev**	**2 std dev**	1 std dev	2 std dev
% change in Canadian market benchmark	(15.9%)	(31.9%)	(16.1%)	(32.1%)
Canadian mandate	$ (128,251)	$ (256,503)	$ (105,801)	$ (211,601)
% change in Global market benchmark	(13.1%)	(26.1%)	(12.7%)	(25.5%)
Global mandate	$ (252,866)	$ (505,732)	$ (210,922)	$ (421,843)
% change in Emerging market benchmark	(22.5%)	(45.0%)	(22.1%)	(44.2%)
Emerging markets mandate	$ (80,569)	$ (161,139)	$ (71,023)	$ (142,046)

Fixed income pricing risk

Fixed income pricing risk related to financial securities arises from changes in general financial market or economic conditions that may change the pricing of the entire non-government bond market, specific sectors or individual issuers. This risk is generally manifested through changes in the security's credit spread. WCB's investment portfolio is exposed to fixed income pricing risk through participation in a Canadian mortgage pool and through direct holdings of Canadian and foreign fixed income securities.

The table below presents the effects of a change in the credit spreads of 50 and 100 bps[2] on the mortgage portfolio and non-government portion of the bond portfolio:

($ thousands)	**2012**		2011	
Change in nominal interest rate	**+50 bp**	**+100 bp**	+50 bp	+100 bp
Non-government bonds	$ (23,204)	$ (46,409)	$ (23,350)	$ (46,700)
Mortgages	$ (8,726)	$ (17,452)	$ (7,637)	$ (15,275)

[1] A change is considered to be material when it exceeds the standard deviation (std dev), which measures the variance in a normal probability distribution. One standard deviation covers 68 per cent of all probable outcomes; two standard deviations include 95 per cent of outcomes. The benchmark deviations are based on 2012 data.

[2] One basis point (bp) equals 1/100 of 1 per cent; 50 bps = 50/100 of 1 per cent or 0.5 per cent.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The table below presents the effects of a nominal interest rate change of 50 and 100 bps on the respective bond and mortgage portfolios:

($ thousands)	**2012**		2011	
Change in nominal interest rate	**+50 bp**	**+100 bp**	+50 bp	+100 bp
Nominal bonds	$ (64,173)	$ (128,347)	$ (55,894)	$ (111,789)
Real return bonds	$ (46,766)	$ (93,532)	$ (44,360)	$ (88,720)
Mortgages	$ (8,726)	$ (17,452)	$ (7,637)	$ (15,275)

Foreign currency risk

Currency risk is the risk that the value of financial assets and liabilities denominated in foreign currencies will fluctuate due to changes in their respective exchange rates.

WCB is exposed to currency risk through foreign investments in fixed income, equities and infrastructure. The exposures are hedged to the Canadian dollar by utilizing forward contracts. The target hedge ratio (percentage of the exposure hedged to Canadian dollars) varies by asset class and currency. The target for fixed income and infrastructure is 100 per cent. For foreign equities, the target is 25 per cent for the U.S. dollar and 50 per cent for other major currencies.

WCB's largest foreign currency exposure is to the U.S. dollar, with unhedged holdings of $1,068,259 (2011 – $680,652); euro exposure is next, with unhedged holdings of $278,251 (2011 – $123,341). For the current reporting period, the net gain from the currency overlay was $29,147 (2011 – $26,876 loss).

The table below presents the effects on the foreign equity mandate of a material change in the Canadian/U.S. dollar and Canadian/euro exchange rates:

($ thousands)	**2012**		2011	
	CAD/USD	**CAD/EURO**	CAD/USD	CAD/EURO
December 31 spot rate	1.0043	0.7618	0.9821	0.7565
10% appreciation in the Canadian dollar	1.1048	0.8379	1.0803	0.8322
Global mandate	$ (97,115)	$ (25,296)	$ (61,877)	$ (11,213)

PORTFOLIO RISKS

Derivatives risk

Although derivatives represent an important component of WCB's risk management strategy, the portfolio does not contain any derivatives intended for speculative or trading purposes. An example of derivatives used for risk mitigation is the currency overlay described in the currency risk section, which is a partial hedge of the currency exposure. From time to time, derivatives are also utilized as a portfolio management technique to replicate a target asset mix or achieve certain asset exposures when it is not possible or cost-effective to hold or sell securities directly.

The notional value of a derivative contract used in a hedging arrangement represents the exposure that is being hedged, and is the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not indicative of the credit risk associated with such derivative contracts. WCB's credit exposure is represented by the replacement cost of all outstanding contracts in a receivable (positive fair value) position. Counterparty default risk with respect to derivative contracts is mitigated in accordance with investment guidelines on counterparty default risk.

The table below summarizes the fair value of WCB's derivative portfolio of open contract positions in segregated funds, with their remaining terms to maturity, as at December 31:

($ thousands)			2012			2011		
	Asset Mandates	Term to Maturity	Notional Principal	Fair Value Asset	Fair Value Liability	Notional Principal	Fair Value Asset	Fair Value Liability
Asset replication contracts								
Equity index futures contracts	Global equities	Within 1 year	$ 338,704	$ -	$ (2,938)	$ -	$ -	$ -
Bond futures contracts	Global fixed income	Within 1 year	265,304	-	(71)	99,797	-	(275)
			604,008	-	(3,009)	99,797	-	(275)
Foreign-exchange contracts								
Currency overlay forward contracts	Global equities	Within 1 year	1,145,516	-	(8,854)	1,532,363	26,688	-
Forward foreign-exchange contracts	Global equities/ fixed income	Within 1 year	879,056	199	(3,454)	380,017	3,499	(149)
			2,024,572	199	(12,308)	1,912,380	30,187	(149)
			$2,628,580	$ 199	$ (15,317)	$2,012,177	$ 30,187	$ (424)

WCB also has indirect exposure to derivatives risk through its pooled investments, but they do not contain any derivatives intended for speculative or trading purposes.

Liquidity risk

Liquidity risk stems from the lack of marketability of a security that cannot be bought or sold quickly enough to prevent or minimize a loss.

Through a proactive cash management process that entails continuous forecasting of expected cash flows, WCB mitigates liquidity risk by minimizing the need for forced liquidations of portfolio assets in volatile markets. To cover unanticipated cash requirements when market conditions are unfavourable, WCB has negotiated a standby line of credit of up to $20 million, which has not been drawn down as at December 31, 2012.

Counterparty default risk

Counterparty default risk arises from the possibility that the issuer of a debt security, or the counterparty to a derivatives contract, fails to discharge its contractual obligations to WCB.

To mitigate counterparty default risk, WCB requires that credit ratings for counterparties not fall below an acceptable threshold. The Investment Policy permits bond issuers to have lower than a B- (or equivalent score) from a recognized credit-rating agency, but such holdings may not exceed 3 per cent of total fixed income assets in the portfolio. Counterparties for derivative contracts will have at least an A- credit rating or equivalent from a recognized credit-rating agency. Each fund is closely monitored for compliance to ensure that aggregate exposures do not exceed those specified investment constraints.

As at December 31, 2012, the aggregate amount of fixed income securities in segregated funds with counterparty ratings below BBB- was $115,960 (2011 – $89,208). WCB also has indirect exposure to counterparty default risk through its pooled investments. Seven per cent of the fixed income portfolio is held in pooled funds.

Securities lending risk

WCB participates in a securities-lending program sponsored by its custodian. Under IFRS 9, securities lending arrangements are considered to be transfers of assets that are not derecognized because the transferor retains substantively the risks and rewards of ownership, notwithstanding the transferee's right to sell or pledge those assets. WCB is protected against loss of the transferred securities by requiring the borrower to provide collateral in the form of cash or marketable securities having a minimum fair value of 102 per cent of the loan. Such collateral is not recognized because it is available to the transferor only upon failure of the transferee to fulfil its commitments. In any event, the custodian is also contractually obligated to indemnify WCB for any losses resulting from inadequate collateral.

At December 31, 2012, securities on loan through the custodian totalled $804 million (2011– $750 million), secured by $851 million (2011 – $799 million) of posted collateral. During 2012, the securities-lending program generated income of $2,349 (2011 – $1,659).

7. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

Property, plant and equipment are recognized as an asset if it is probable that WCB will realize future economic benefits. Items are measured at fair value upon initial recognition.

After initial recognition, property, plant and equipment is stated at historical cost less accumulated depreciation and impairment (if applicable) with the exception of land, which is not depreciated. Leased assets and leasehold improvements are depreciated over their lease term. All other items are depreciated over their expected useful life. Depreciation expense is recognized when an asset is ready for use.

Residual values, useful lives and depreciation methods are reviewed at each financial year-end and adjusted if appropriate. Depreciation expense is included in claims management and corporate administration in the statement of comprehensive income (see Note 15 *Administration Expense*).

WCB applies the following annual depreciation rates and methods:

Buildings	*2.5 per cent straight-line*
Leasehold improvements	*Straight-line over the expected lease term*
Equipment:	
· *Computer (owned)*	*35 per cent declining balance*
· *Computer (leased)*	*Straight-line over the lease term*
Furniture and other	*15 per cent declining balance*
Vehicles	*20 per cent straight-line*

WCB evaluates its property, plant and equipment for indicators of impairment such as obsolescence, redundancy, deterioration, loss or reduction in future service potential, or when there is a change in intended use. When the carrying value exceeds the amount of future economic benefit through utilization, the item of property, plant and equipment is written down to expected value and the amount recognized as an impairment loss.

($ thousands)						2012	2011
Cost	Land/ Buildings	Leasehold Improvements	Computer Equipment	Office Furniture/ Equipment	Vehicles/ Other	**Total**	Total
Balance, beginning of period	$ 47,932	$ 1,636	$ 12,881	$ 17,088	$ 725	$ 80,262	$ 73,485
Current period activity:							
Capitalized expenditure	3,586	-	5,399	2,339	51	11,375	10,704
Transfer from PPE under construction	(2,294)	-	(2,825)	(2,330)	(25)	(7,474)	(8,882)
Disposals	-	-	(1,678)	(69)	-	(1,747)	(2,520)
PPE under construction	2,330	51	235	330	-	2,946	7,475
Balance, end of period	$ 51,554	$ 1,687	$ 14,012	$ 17,358	$ 751	$ 85,362	$ 80,262
Accumulated depreciation and impairment							
Balance, beginning of period	$ 17,984	$ 944	$ 5,640	$ 8,424	$ 200	$ 33,192	$ 30,960
Current period activity:							
Depreciation	1,177	68	3,262	1,303	146	5,956	4,752
Disposals	-	-	(1,678)	(69)	-	(1,747)	(2,520)
Balance, end of period	$ 19,161	$ 1,012	$ 7,224	$ 9,658	$ 346	$ 37,401	$ 33,192
Carrying value, beginning of period	$ 29,948	$ 692	$ 7,241	$ 8,664	$ 525	$ 47,070	$ 42,525
Carrying value, end of period	$ 32,393	$ 675	$ 6,788	$ 7,700	$ 405	$ 47,961	$ 47,070

Property, plant and equipment under finance leases

Included in property, plant and equipment is computer equipment acquired through finance leases at cost of $6,683 (2011 – $6,711), accumulated depreciation of $2,803 (2011 – $1,977), and carrying value of $3,881 (2011 – $4,734).

See Note 9 *Lease and Other Commitments* for accounting policy and further details on leased property, plant and equipment.

8. INTANGIBLE ASSETS

ACCOUNTING POLICY

WCB's intangible assets are composed of computer software developed internally or acquired through third party vendors and customized as necessary. Development expenditure is capitalized only if the directly related costs (both internal and external) can be measured reliably, the product or process is technically feasible, future economic benefits are probable, and WCB has the intention and sufficient resources to complete development and to use the asset in the manner intended.

Computer software is measured at cost upon initial recognition. After initial recognition, computer software is measured at cost less accumulated amortization and impairment (if applicable). Computer software is amortized on a straight-line basis at 20 per cent per year commencing from the date that the software is available for use.

Amortization expense is included in claims management and corporate administration in the statement of comprehensive income (see Note 15 *Administration Expense*).

($ thousands)

			2012	2011
Cost	In Use	Under Development	**Total**	Total
Balance, beginning of year	$ 118,279	$ 7,431	$ 125,710	$ 117,440
Capitalized expenditure	-	5,788	5,788	8,270
Transfers from development	9,525	(9,525)	-	-
Disposals	(1,266)	-	(1,266)	-
Balance, end of year	$ 126,538	$ 3,694	$ 130,232	$ 125,710
Accumulated amortization and impairment				
Balance, beginning of year	$ 101,229	$ -	$ 101,229	$ 94,215
Amortization	7,899	-	7,899	7,014
Disposals	(1,266)	-	(1,266)	-
Balance, end of year	$ 107,862	$ -	$ 107,862	$ 101,229
Carrying value, beginning of period	$ 17,050	$ 7,431	$ 24,481	$ 23,225
Carrying value, end of period	$ 18,676	$ 3,694	$ 22,370	$ 24,481

9. LEASE AND OTHER COMMITMENTS

ACCOUNTING POLICY

Leases of property, plant and equipment where WCB acquires substantially all the risks and rewards of ownership are classified as finance leases. At lease commencement, finance leases are recognized in the statement of financial position as assets and corresponding obligations at the lower of the fair value of the leased property and the present value of future minimum lease payments.

Lease payments are allocated between the liability and finance charges using the effective interest method to achieve a constant rate of interest on the remaining balance of the lease. The interest portion of the payment is charged to income over the lease period, while the principal portion is applied against the lease obligation.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to income over the lease term.

Lease obligations

WCB has obligations under material long-term non-cancellable finance lease agreements for mainframe and desktop computer equipment. The land for WCB's rehabilitation centre and office space in Edmonton and Calgary are held under operating leases. WCB's leases have remaining terms of between one and 18 years.

Undiscounted future minimum lease payments under finance leases are $4,198 (2011 - $4,945), with a carrying value of $3,982 (2011 - $4,791), the difference of $216 (2011 - $154) being the effect of discounting.

See Note 7 *Property, Plant and Equipment* for carrying values of computer equipment held under finance leases and Note 19(c) *Trade and Other Liabilities* for presentation of the current finance lease obligation.

Commitments

WCB enters into contractual commitments for purchases of goods and services as part of its regular business activities. Future undiscounted expenditure commitments are listed in the table below.

($ thousands)	Leases			2012	2011
	Finance	Operating	Other Commitments	Total	Total
2012	$ -	$ -	$ -	$ -	$ $20,807
2013	2,189	1,751	14,276	18,216	11,233
2014	1,719	1,710	10,145	13,574	9,650
2015	269	1,722	3,460	5,451	1,948
2016	21	1,722	2,600	4,343	2,074
Beyond	-	5,722	1,499	7,221	5,831
	$ 4,198	$ 12,627	$ 31,980	$ 48,805	$ 51,543

10. EMPLOYEE BENEFITS

ACCOUNTING POLICY

On January 1, 2011, WCB early adopted amended IAS 19 *Employee Benefits*.

WCB provides active service and defined post-employment benefits to its employees. WCB also participates in certain multi-employer pension plans sponsored by the province of Alberta. An expense and a liability for benefits earned are recognized in the period that employee service has been rendered.

For defined post-employment benefit plans, current benefit cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the accrued benefit method prorated on service, a market interest rate, management's best estimate of projected costs, and the expected years of service until retirement. The liability as at the reporting date is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash outflows using a discount rate based on market yields of high-quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability. Interest expense represents the amount required in each year to build up the liability over the projected benefit period to its future value.

Remeasurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

ACTIVE SERVICE BENEFITS

WCB's short-term benefits for active employees include salary, compensated absence (sick leave, statutory holidays and annual vacation), group life insurance, dental and medical coverage, employee family assistance program, education support, and health and wellness benefits.

Termination benefits are provided for through employment contracts, statutory requirements or constructive obligations. As at December 31, 2012, there were no material provisions relating to termination benefits.

POST-EMPLOYMENT BENEFITS

Pension plans

Employee post-retirement benefits are provided through contributory multi-employer defined benefit pension plans sponsored by the province of Alberta, namely the Public Service Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP). Under defined benefit plan accounting, WCB must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, remeasurement amounts, and service cost prorated on total contributory payroll.

Both plans have funding deficiencies that have statutory funding requirements by employers and employees to eliminate any plan deficiencies over a specific time horizon. The information in this note reflects an annual actuarial valuation of WCB's share of the plans' assets, benefit obligations, remeasurement amounts and service cost.

Supplemental executive retirement plan

WCB sponsors a non-contributory supplemental executive retirement plan (SERP), with the WCB Accident Fund covering the obligations of the plan. Earnings of senior management generally exceed the threshold earnings for the maximum pension benefit permitted under the federal Income Tax Act. Under the terms of the SERP, senior management is entitled to receive supplemental retirement payments that bring their total pension benefits to a level consistent with their total earnings. Future pension benefits are based on the participants' years of service and earnings.

See Note 17 *Related Party Transactions* for a breakdown of SERP costs by executive position.

Post-retirement benefit plan

WCB provides a contributory benefit plan that provides dental and health care benefits to retirees on pensions between the ages of 55 to 65. As plan participants pay part of the benefit cost, the benefit obligation represents the difference between actual costs and contributions subsidized by WCB.

OTHER BENEFIT PLANS

Long-term disability plan

WCB administers a non-contributory long-term disability (LTD) income continuance plan for its employees, with the WCB Accident Fund covering the obligations of the plan. The LTD liability represents the present value of all future obligations arising from claims incurred during the period.

EMPLOYEE BENEFIT PLAN ASSUMPTIONS

The table below presents key assumptions applicable to WCB's employee future benefit plans.

	2012					2011				
	PSPP	MEPP	SERP	Post Retirement	LTD	PSPP	MEPP	SERP	Post Retirement	LTD
Date of most recent actuarial valuation	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2011	12/31/2011	12/31/2011	12/31/2011	12/31/2011
Economic assumptions										
Discount rate (nominal)	4.30%	4.30%	4.50%	4.10%	3.50%	5.30%	5.20%	5.40%	5.00%	4.20%
Alberta inflation rate (long-term)	2.25%	2.25%	2.25%	n/a	n/a	2.25%	2.25%	2.25%	n/a	n/a
Salary escalation rate	varied	3.50%	4.00%	n/a	3.00%	varied	3.50%	4.00%	n/a	3.00%
Multi-employer plan funding assumptions										
WCB share of plan payroll	4.57%	1.34%				4.51%	1.31%			
Effective rate on contributory payroll	14.17%	19.70%				14.17%	19.70%			
WCB's contributions for the current period *($ thousands)*	$ 11,500	$ 1,356				$ 10,021	$ 1,291			
WCB's expected contributions for the following period *($ thousands)*	$ 13,925	$ 1,392				$ 10,671	$ 1,315			

DEFINED BENEFIT PLAN LIABILITIES

($ thousands)	Pension Liabilities[1]	Other Retirement Liabilities[2]	LTD	2012	2011
Change in defined benefit obligation					
Defined benefit obligation, beginning of year	$ 251,360	$ 8,242	$ 11,285	$ 270,887	$ 242,819
Current service cost[3]	10,288	819	4,237	15,344	11,592
Interest expense[4]	13,353	449	448	14,250	13,687
Remeasurement (gains) losses[5]	58,015	(1,733)	(977)	55,305	12,319
Benefit payments	(8,740)	(52)	(1,588)	(10,380)	(9,530)
Defined benefit obligation, end of year	$ 324,276	$ 7,725	$ 13,405	$ 345,406	$ 270,887
Change in fair value of plan assets					
Fair value of plan assets, beginning of year	$ 165,829	$ -	$ -	$ 165,829	$ 160,228
Employer contributions	12,856	52	1,588	14,496	12,842
Interest income[4]	8,873	-	-	8,873	9,201
Remeasurement gains (losses)[5]	12,586	-	-	12,586	(6,917)
Benefit payments	(8,740)	(52)	(1,588)	(10,380)	(9,525)
Fair value of plan assets, end of year	$ 191,404	$ -	$ -	$ 191,404	$ 165,829
Net plan liability					
Defined benefit obligation	$ 324,276	$ 7,725	$ 13,405	$ 345,406	$ 270,887
Fair value of plan assets	191,404	-	-	191,404	165,829
	$ 132,872	$ 7,725	$ 13,405	$ 154,002	$ 105,058

[1] *Pension liabilities include WCB's proportionate share of the PSPP and MEPP net unfunded liabilities.*
[2] *Other retirement liabilities include SERP and post-retirement benefit plan.*
[3] *Current service costs are presented within Corporate Administration in the statement of comprehensive income.*
[4] *Interest expense is presented net of interest income in the statement of comprehensive income.*
[5] *Remeasurement gains and losses on plan obligations is presented net of gains and losses on plan assets in the statement of comprehensive income.*

RISKS ARISING FROM DEFINED BENEFIT PLANS

Economic risks

Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets, and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to the extremely long tails of post-employment benefits, and health care escalation due to increasingly higher costs of treatment and prescription drugs.

Demographic risks

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates, etc.

Multi-employer plan funding risk

In addition to economic and demographic risk factors, WCB is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for and amount of pension and related benefits; and
- Performance of plan assets affected by investment policies set by the pension boards.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments and mandatory funding requirements.

Sensitivity analysis

The following table shows the effect of a 25 basis point change in the assumed discount rate, inflation rate, and wage inflation rate on WCB's proportionate share of the accrued benefit obligations of PSPP and MEPP. The impacts of the assumption changes on WCB's other employee benefit plans, individually and in aggregate, are immaterial.

($ thousands)	2012		2011	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Discount rate based on market yields on high-quality corporate bonds	$ (11,607)	$ 11,607	$ (8,937)	$ 8,937
General inflation rate	$ 5,100	$ (5,100)	$ 4,037	$ (4,037)
Wage inflation rate	$ 2,273	$ (2,273)	$ 1,801	$ (1,801)

11. CLAIM BENEFIT LIABILITIES

ACCOUNTING POLICY

The claim benefit liability represents the actuarial present value of all expected future benefit payments for claims occurring before the valuation date and for workplace exposures that may result in recognized occupational disease claims. The liability includes a provision for future costs of managing claims but does not include claims and payments that are on a self-insured basis. Valuation of claim benefit liabilities complies with Standards of Practice issued by the Actuarial Standards Board (ASB) of the Canadian Institute of Actuaries.

Gains and losses resulting from the valuation of the liability arise from differences between actual claims experience and that expected based on the previous valuation, changes to actuarial methods and assumptions as well as changes in policy, legislation and administrative practices. Such gains and losses are recognized in income in the period that they occur.

CHANGE IN ACTUARIAL STANDARDS – LIABILITY FOR LONG LATENCY OCCUPATIONAL DISEASE CLAIMS

In February 2011, the ASB issued new standards of practice for workers' compensation organizations that requires their valuations to include an allowance for all recognized latent occupational disease claims expected to arise in the future as a result of past exposures. This specific requirement is mandatorily effective for valuation dates on and after Dec. 31, 2014, but early adoption is permitted.

The standards of practice require estimation of occupational disease liabilities based on when the workplace exposure to agents that cause such diseases occurs instead of when the disease manifests itself and the claim is accepted. WCB considers this to be a significant change in the existing method for estimating occupational disease liabilities.

WCB concluded that retrospective application is impracticable and as permitted by IAS 8, will apply the new requirements in the earliest period practicable (i.e., in the period of the change and in future periods affected by the change). The cumulative impact on claim benefit liabilities is $686.4 million, which is fully recognized in the current period.

ACTUARIAL METHODOLOGY AND BASIS OF VALUATION

Claim benefit liabilities have been independently valued at Dec. 31, 2012, by WCB's external actuary. Claim benefit liabilities include a provision for all covered benefits and for the future expenses of administering those benefits, including funding obligations to the Appeals Commission and Medical Panel Office.

Estimated future expenditures are expressed in constant dollars and then discounted at the assumed real rate of return on investments (i.e., the difference between the expected long-term investment earnings and the expected long-term general inflation rate).

The valuation is based on WCB legislation, policies and administrative practices in effect as at the valuation date. Estimation of the liability requires the use of actuarial methods and assumptions that are periodically assessed and adjusted based on frequent monitoring of actual claims experience, the economy, and other relevant factors throughout the year.

Since the claim benefit liabilities of WCB are of a long-term nature, the actuarial assumptions and methods used to calculate the reported claim benefit liabilities are based on considerations of future expenditures over the long term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgement must be exercised in developing these assumptions. Accordingly, changes in conditions within one year of the financial statement date could require material change in recognized amounts in a subsequent period or periods.

See Note 12 *Claim Benefit Risks* for further discussion of measurement uncertainty with respect to valuation of WCB's claim benefit liabilities.

ACTUARIAL ASSUMPTIONS

The most significant economic assumptions for the determination of claim benefit liabilities are the assumed rate of return on invested assets used for discounting expected future benefit payments, and the escalation rates for benefit costs into the future. All actuarial assumptions are determined on a "best estimate" basis except for the real rate of return on investments. The expected long-term investment return assumption is targeted at a 70 per cent probability level, which provides a margin for adverse deviation in the liability.

Long-term economic assumptions for general inflation and wage escalation are developed by using historical statistics and other economic indicators. The cost-of-living allowance assumption is determined by subtracting 0.5 per cent from the long-term general inflation assumption in accordance with policy. Health care escalation is developed from analysis of WCB health care cost experience, taking into consideration the results of external studies. This escalation rate represents general inflation plus excess inflation of 2.5 per cent, covering both the increases in the costs per treatment and in utilization.

The table below presents key long-term economic assumptions used to determine the claim benefit liabilities:

	2012	2011
Nominal rate of return, years 1-4	4.55%	4.55%
Nominal rate of return, years 5 and beyond	5.58%	5.58%
General inflation rate	2.50%	2.50%
Real rate of return, years 1-4	2.00%	2.00%
Real rate of return, years 5 and beyond	3.00%	3.00 %
Cost-of-living allowance	2.00%	2.00%
Wage escalation	3.50%	3.50%
Health care escalation	5.00%	6.00%

CHANGES IN CURRENT ASSUMPTIONS

For the 2012 valuation, two of the key long-term economic assumptions were changed — the assumptions for the real rate of return and health care escalation. The annual real rate of return for the 2011 valuation was set at 2 per cent up to 2015 and 3 per cent thereafter, reflecting low bond market yields. The short-term period has been extended to include 2016 as market yields have remained essentially the same. Following an extensive study conducted in 2012, the health care escalation assumption was reduced to 5 per cent per annum, the long-term general inflation rate plus 2.5 per cent. These assumption changes decreased the liability by $194.8 million.

Various other actuarial assumptions were also changed based on extensive studies completed in 2012 and those changes decreased the liabilities by $110.5 million.

RECONCILIATION OF CLAIM BENEFIT LIABILITIES

The table below is a reconciliation of the movement in claim benefit liabilities, highlighting the significant changes for each major benefit category.

($ thousands)	Short-term Disability	Long-term Disability	Survivor Benefits	Health Care	Rehabilitation	Claims Management	**2012**	2011
Claim benefit liabilities, beginning of year	$ 406,000	$2,363,200	$ 510,700	$1,838,400	$ 147,100	$ 363,100	$ 5,628,500	$5,278,900
Claim costs recognized during the year								
Provision for future costs of current year injuries	97,600	161,300	26,500	202,300	37,400	65,900	591,000	606,100
Claim benefits processed in the year	72,542	1,842	1,213	124,648	2,971	48,458	251,674	238,409
Total claim costs recognized during the year	170,142	163,142	27,713	326,948	40,371	114,358	842,674	844,509
Claim payments processed during the year								
Payments for current year injuries	(72,542)	(1,842)	(1,213)	(124,648)	(2,971)	(48,458)	(251,674)	(238,409)
Payments for prior years' injuries	(85,038)	(149,490)	(42,432)	(155,416)	(35,330)	(55,255)	(522,961)	(521,014)
	(157,580)	(151,332)	(43,645)	(280,064)	(38,301)	(103,713)	(774,635)	(759,423)
Interest expense on the liability	16,400	103,000	22,100	79,900	5,900	15,200	242,500	228,800
Remeasurement of the liability								
Changes relating to policy, legislation and administrative practices	3,200	12,700	1,500	-	-	-	17,400	7,400
Changes relating to latent occupational diseases	35,800	132,400	82,700	375,600	5,200	54,700	686,400	-
Changes in valuation methods and assumptions								
Change to health care escalation rate	-	-	-	(232,000)	-	-	(232,000)	-
Change to exposure index	-	-	-	-	-	-	-	38,100
Assumptions for Economic Loss Payments	-	(96,500)	-	-	-	-	(96,500)	(47,200)
Lower discount rate related to real rate of return	1,800	17,700	3,600	11,400	600	2,100	37,200	35,600
Other changes in methods and assumptions	-	24,400	-	(34,200)	-	(4,200)	(14,000)	400
Changes in claims experience								
Inflation and wage growth different than expected	(2,500)	(27,000)	(6,700)	(22,900)	(200)	(500)	(59,800)	21,000
Actual costs different than expected	(7,900)	(41,800)	(7,900)	(11,800)	1,600	(700)	(68,500)	12,200
Other experience (gains) losses	(6,562)	(34,010)	(8,968)	(3,084)	730	18,155	(33,739)	(31,786)
	23,838	(12,110)	64,232	83,016	7,930	69,555	236,461	35,714
Claim benefit liabilities, end of year	$ 458,800	$2,465,900	$ 581,100	$2,048,200	$ 163,000	$ 458,500	$6,175,500	$5,628,500

See Note 14 *Claims and Claims Management Expenses* for details of the amounts recognized in income for the reporting period.

CLAIMS DEVELOPMENT

The table that follows presents the development of the estimated ultimate cost of claims and claim payments for accident years 2005 - 2012. The top part of the table illustrates how the estimate of total claims benefits for each accident year has changed with more experience over succeeding year-ends. The shaded claims triangle shows the estimated cost of claims for an accident year in the year of accident, one year after the year of accident, two years after the year of accident, and so on and compares the total estimated cost to the actual cumulative payments over the development period. Due to the extremely long duration of many WCB benefit types, significant amounts may be paid out in the distant future beyond the valuation date. The bottom part of the table reconciles the total outstanding benefits amount to the discounted amount reported in the statement of financial position.

	Accident Year									
($ thousands)	Prior Years	2005	2006	2007	2008	2009	2010	2011	2012	Total
Estimate of cumulative claims benefits										
At end of accident year		1,041,803	1,150,098	1,313,629	1,407,779	1,301,798	1,333,450	1,444,292	*1,320,790*	
One year later		1,044,701	1,189,008	1,295,318	1,308,486	1,250,394	1,299,370	*1,250,437*		
Two years later		1,054,176	1,178,679	1,197,062	1,276,380	1,239,500	*1,118,489*			
Three years later		1,042,662	1,096,841	1,176,070	1,271,144	*1,095,702*				
Four years later		980,429	1,072,273	1,154,051	*1,135,923*					
Five years later		957,173	1,079,888	*1,035,340*						
Six years later		944,210	*988,475*							
Seven years later		*863,301*								
Current estimate of cumulative claims benefits		863,301	988,475	1,035,340	1,135,923	1,095,702	1,118,489	1,250,437	1,320,790	
Cumulative payments		(383,414)	(408,665)	(405,115)	(417,980)	(363,052)	(331,897)	(335,184)	(203,216)	
Outstanding benefits (undiscounted)	$5,263,637	$ 479,887	$ 579,810	$ 630,225	$ 717,943	$ 732,650	$ 786,592	$ 915,253	$1,117,574	$11,223,571
Effect of discounting	(2,794,238)	(183,887)	(345,010)	(372,626)	(424,142)	(435,850)	(461,592)	(528,452)	(592,474)	(6,138,271)
	2,469,399	296,000	234,800	257,599	293,801	296,800	325,000	386,801	525,100	5,085,300
Claims management[1]										458,500
Latent occupational diseases										631,700
Claim benefit liabilities										$6,175,500

[1] *Claims Management liability includes $54.7 million for latent occupational diseases.*

12. CLAIM BENEFIT RISKS

Because there is no statutory limit on the benefit amount payable or the duration of the risk exposure related to work-related injuries, WCB bears risk with respect to its future claim costs, which could have material implications for liability estimation. In determining WCB's claim benefit liabilities, a primary risk is that the actual benefit payments may exceed the amount estimated in determining the liabilities. This may occur due to changes in claim reporting patterns, frequency and/or size of claim payments or duration of claims. Compensable injuries and benefits payable may also change due to legislation or policy changes. With potentially long claims run-off periods, inflation is also a factor because future costs could escalate at a faster rate than expected.

The uncertainties associated with WCB claim benefit liabilities are complex and subject to a number of variables that complicate quantitative sensitivity analysis. The most significant assumption in the

determination of the claim benefit liabilities is the real rate of return. A reduction in the assumed real rate of return would increase the actuarial present value of the claim benefit liabilities. Wage inflation affects the liabilities through benefits such as vocational rehabilitation and home maintenance allowances. An increase in assumed wage growth would increase the respective liabilities. Health care benefits represent approximately 33 per cent of the claim benefit liabilities. An increase in the assumed health care escalation rate would result in an increase in the liability for health care.

EFFECT OF ASSUMPTION CHANGES ON CLAIM BENEFIT LIABILITIES

The table below shows the sensitivity of the claim benefit liabilities to an immediate 0.25 per cent increase or decrease in the assumed rates:

($ thousands)	2012		2011	
+/- % change on assumed rates	+0.25%	-0.25%	+0.25%	-0.25%
Real rate of return	$ (183,700)	$ 194,500	$ (161,000)	$ 168,000
Wage inflation rate	$ 46,200	$ (44,300)	$ 32,000	$ (31,000)
Health care escalation rate	$ 78,500	$ (73,900)	$ 64,000	$ (61,000)

13. PREMIUM REVENUE

ACCOUNTING POLICY

Premiums are assessed and due when employers report their insurable earnings for the current year. For employers who have not reported, premiums are estimated and included in the amount receivable. Premium revenue includes estimates for Partnerships in Injury Reduction (PIR) rebates and other items.

Premium revenue is fully earned and recognized over the annual coverage period. Any difference between actual and estimated premiums and rebates is adjusted in the following year.

($ thousands)	2012	2011
Premiums		
Assessed premium revenue for current year	$ 1,238,127	$ 1,082,820
Other premium-related revenue	9,432	12,209
	1,247,559	1,095,029
Deduct: Partnerships in injury reduction rebates	90,339	73,327
	$ 1,157,220	$ 1,021,702

Assessed premium revenue includes an accrual of $16,825 (2011 – $11,286) for amounts related to yet to be reported insurable earnings for the current period. The accrual has been determined using an internally developed statistical model to estimate the amount of unreported earnings based on actual returns processed to date and historical patterns of processed to unprocessed returns at a specified point in time.

PIR is a voluntary program that pays rebates to those registered employers that have met the eligibility requirements in achieving certain workplace safety targets as specified under the program. Earned rebates are payable in the following year. The estimated rebate amount is based on several factors, including premiums paid, year-over-year improvement in claims experience and safety performance relative to industry benchmarks, among others.

For both premium and PIR accruals, the differences between actual and estimated amounts in past years have not been material.

14. CLAIMS AND CLAIMS MANAGEMENT EXPENSES

The table below presents details of claims and claims management expenses reported in the statement of comprehensive income.

($ thousands)	2012			2011
	Current Year Injuries	Prior Years' Injuries	Total	Total
Claims expense				
Provision for future costs of current year injuries[1]	$ 591,000	$ -	$ 591,000	$ 606,100
Claim payments processed in the year				
Short-term disability	72,542	85,038	157,580	159,374
Long-term disability	1,842	149,490	151,332	148,331
Survivor benefits	1,213	42,432	43,645	44,369
Health care	124,648	155,416	280,064	271,398
Rehabilitation	2,971	35,330	38,301	40,325
	203,216	467,706	670,922	663,797
Claim payments related to prior years[2]	-	(522,961)	(522,961)	(521,014)
	203,216	(55,255)	147,961	142,783
	$ 794,216	$ (55,255)	$ 738,961	$ 748,883
Claims management[3]				
Claims-related administration	48,406	44,861	93,267	84,809
Appeals Commission	51	10,113	10,164	10,532
Medical Panel Office	1	281	282	285
	$ 48,458	$ 55,255	$ 103,713	$ 95,626
	$ 842,674	$ -	$ 842,674	$ 844,509

[1] *Provision for future costs of current year injuries represents the present value of all future obligations for benefit payments arising from current year injuries.*

[2] *Although claim payments relating to prior years injuries are processed in the reporting period, they are not expensed in the current year but are charged to the liabilities established for prior accident years.*

[3] *Claims management represents WCB's internal functional costs related to claims processing as well as funding of the external decision review bodies. Claims management expenses are included in claim benefit liabilities for valuation purposes but are presented separately in the statement of comprehensive income.*

15. ADMINISTRATION EXPENSE

WCB's primary administrative functions include:

- **Claims-related administration** – responsible for adjudicating claims, processing benefit payments, and the provision of return-to-work services to claimants.
- **Corporate administration** – provides general management and administrative support.

The table below presents administration expenses broken down by nature of expense and by function:

($ thousands)	Corporate	Claims-related	**2012**	2011
Administration expenses				
Salaries and employee benefits	$ 55,329	$ 106,341	$ 161,670	$ 150,372
Technology	12,907	5,997	18,904	18,108
Office	3,820	1,155	4,975	5,280
Occupancy	2,315	5,568	7,883	8,693
Professional fees	1,511	2,468	3,979	4,335
Depreciation and amortization	7,426	6,429	13,855	11,754
Travel	674	461	1,135	1,178
Other	911	281	1,192	1,544
	84,893	128,700	213,593	201,264
Less:				
Cost recoveries - legal action	-	3,300	3,300	3,113
Cost recoveries - other	74	3,635	3,709	3,491
Reclassifications to:				
Claims expense - rehabilitation services	-	28,498	28,498	29,086
Investment Management expense	2,629	-	2,629	2,384
	2,703	35,433	38,136	38,074
	$ 82,190	$ 93,267	$ 175,457	$ 163,190

16. INVESTMENT INCOME AND EXPENSE

ACCOUNTING POLICY

The primary components of investment income include:

(a) Gains and losses from investments classified at fair value through income (including gains and losses from remeasurement and from disposition of assets) recognized in income in the period in which they arise;

(b) Interest revenue accrued using the effective interest method, net of amortization of any premium or discount recognized at date of purchase;

(c) Dividend income when a right to payment has been established based on the ex-dividend date for quoted securities; and

(d) Property income (operating income such as rentals and other business revenue) when a right to distributable income has been established.

Investment expense is composed primarily of investment management expenses, for both external and internal portfolio managers. Fund management expenses of pooled investments, excluding investment management fees, are netted against the revenues of those respective funds.

INVESTMENT INCOME

($ thousands)						2012	2011
	Interest	Dividends	Gains (Losses)	Property	Derivatives	**Total**	Total
Fixed income							
Bonds	$ 85,604	$ -	$ 65,333	$ -	$ 5,511	$ 156,448	$ 247,999
Mortgages	21,927	-	(6,674)	-	-	15,253	25,903
Short-term investments	3,061	-	-	-	-	3,061	4,179
	110,592	-	58,659	-	5,511	174,762	278,081
Equities							
Domestic equities	-	24,041	52,269	-	-	76,310	(42,260)
Foreign equities	-	42,539	224,594	-	8,954	276,087	(65,040)
	-	66,580	276,863	-	8,954	352,397	(107,300)
Inflation sensitive							
Real estate	-	-	121,320	33,179	-	154,499	140,697
Infrastructure	-	-	81,151	10,734	8,514	100,399	(678)
	-	-	202,471	43,913	8,514	254,898	140,019
	$ 110,592	$ 66,580	$ 537,993	$ 43,913	$ 22,979	$ 782,057	$ 310,800

INVESTMENT MANAGEMENT EXPENSE

($ thousands)	2012	2011
Fund management fees	$ 26,425	$ $20,217
Custody fees	371	419
Investment administration	2,629	2,384
	$ 29,425	$ 23,020

17. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Alberta Crown corporations, departments, agencies, boards, educational institutions and commissions related to WCB by virtue of common influence by the Government of Alberta. Routine operating transactions in the ordinary course of business are settled at terms equivalent to those for arm's length entities.

Included in related-party transactions are certain funding obligations relating to Occupational Health and Safety, the Appeals Commission and the Medical Panel Office that are in accordance with the applicable legislation and/or regulations. The amounts outstanding at December 31 and transactions throughout the year related to these funding obligations are disclosed in this note.

Key management personnel of WCB, comprised of the Board of Directors and the senior executive and their close family members, are also related parties in accordance with IAS 24 *Related Party Disclosures*. As at the reporting date, there were no business relationships, outstanding amounts or transactions other than compensation between WCB and its key management personnel requiring disclosure in these financial statements.

The amounts outstanding at December 31 and transactions throughout the year with the related parties described above, excluding key management personnel, are as follows:

($ thousands)	2012	2011
Receivables	$ 3	$ 5
Payables and accruals	$ 2,297	$ 2,884
Expenses	$ 39,083	$ 38,192

KEY MANAGEMENT COMPENSATION

The tables below present total compensation of the directors and senior management of WCB in accordance with the requirements of the Salary and Benefits Disclosure Directive issued by the Treasury Board of Alberta.

($)	2012				
	Base Salary[1]	Other Cash Benefits[2]	Non-Cash Benefits[3]	SERP[4]	Total
Chair, Board of Directors[5]	$ -	$ 55,494	$ 4,478	$ -	$ 59,972
Board Members[5]	-	135,916	8,201	-	144,117
President and Chief Executive Officer	408,000	216,000	39,724	75,200	738,924
Vice-president, Disability and Information Management	329,000	121,500	34,068	57,200	541,768
Chief Financial Officer	304,000	112,400	36,406	44,600	497,406
Vice-president, Customer Service and Risk Management	289,000	107,150	36,166	48,600	480,916
Vice-president, Employee and Corporate Services	248,000	80,400	35,404	30,600	394,404
Secretary and General Counsel	243,000	78,900	36,936	34,600	393,436
	$ 1,821,000	$ 907,760	$ 231,383	$ 290,800	$ 3,250,943
	2011				
Chair, Board of Directors[5]	$ -	$ 83,480	$ 3,912	$ -	$ 87,392
Board Members[5]	-	105,108	8,710	-	113,818
President and Chief Executive Officer	375,000	199,500	38,459	63,400	676,359
Vice-president, Disability and Information Management	307,000	113,450	32,917	45,900	499,267
Chief Financial Officer	275,000	102,250	35,076	34,200	446,526
Vice-president, Customer Service and Risk Management	275,000	102,250	35,041	42,200	454,491
Vice-president, Employee and Corporate Services	236,000	76,800	33,998	26,500	373,298
Secretary and General Counsel	231,000	75,300	36,214	28,500	371,014
	$ 1,699,000	$ 858,138	$ 224,327	$ 240,700	$ 3,022,165

[1] *Base salary is pensionable base pay.*

[2] *Other cash benefits include performance awards, car allowances and honoraria.*

[3] *Non-cash benefits include employer's share of all employee short-term benefits and payments made to or on behalf of employees including statutory contributions, health care, dental and vision coverage, out-of-country medical benefits, group life and accident insurance, educational costs and professional memberships.*

[4] *SERP represents employer's current service cost for benefits accrued under a supplemental executive retirement plan. See Note 10* Employee Benefits *for details of the plan, and the following table for the costs and obligations related to each named key management position.*

[5] *The Chair of the Board of Directors and the nine Board Members are part-time positions. There were a number of vacancies throughout 2011 and 2012.*

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

($)	2012				2011	
	Current Service Cost[1]	Other Costs[2]	Net Cost	Accrued Obligation	Net Cost	Accrued Obligation
President and Chief Executive Officer	$ 75,200	$ 200,800	$ 276,000	$ 990,200	$ 174,900	$ 714,200
Vice-president, Disability and Information Management	57,200	178,300	235,500	693,200	136,500	457,700
Chief Financial Officer	44,600	100,100	144,700	409,600	95,800	264,900
Vice-president, Customer Service and Risk Management	48,600	70,900	119,500	508,500	93,600	389,000
Vice-president, Employee and Corporate Services	30,600	60,000	90,600	335,500	59,500	244,900
Secretary and General Counsel	34,600	52,700	87,300	363,900	77,100	276,600
Other senior management and inactive members	155,500	256,100	411,600	1,153,400	244,000	741,800
	$ 446,300	$ 918,900	$ 1,365,200	$ 4,454,300	$ 881,400	$ 3,089,100

[1] *Current service cost represents the actuarial present value of future benefit obligations arising from employee service in the current period.*

[2] *Other costs include interest on the liability and actuarial gains and losses arising from assumption changes and/or experience.*

18. CONTINGENCIES AND INDEMNIFICATION

LEGAL PROCEEDINGS

WCB is party to various claims and lawsuits related to the normal course of business that are currently being contested. In the opinion of management, the outcome of such claims and lawsuits are not determinable. Based on the total amount of all such actions, WCB has concluded that the outcomes will not have a material effect on the results of operations or financial position.

INDEMNIFICATION AGREEMENTS

In the normal course of operations, WCB enters into contractual agreements that contain standard contract terms that indemnify certain parties against loss. The terms of these indemnification clauses will vary based upon the contract, and/or the occurrence of contingent or future events, the nature of which prevents WCB from making a reasonable estimate of the potential amount that may be payable to those contractual parties. Such indemnifications are not significant, nor has WCB made any payments or accrued any amounts in the financial statements in respect of these indemnifications.

19. SUPPLEMENTAL INFORMATION

(a) Cash and cash equivalents

($ thousands)	2012	2011
Cash in transit and in banks	$ 14,310	$ 23,164
Cash equivalents	201,598	345,384
Cash and cash equivalents	$ 215,908	$ 368,548

Cash equivalents are invested in a portfolio of high-quality, short- to mid-term, highly liquid fixed-income securities that generated an average annual return of 1.2 per cent (2011 – 1.3 per cent).

(b) Trade and other receivables

($ thousands)	2012	2011
Premium		
Assessed	$ 44,076	$ 37,051
Accrued	16,825	11,286
	60,901	48,337
Other	11,687	3,453
	$ 72,588	$ 51,790

Accrued premiums receivable represent premiums related to employers that had not yet reported their insurable earnings by year-end. Substantially all receivables are collected within one year.

(c) Trade and other liabilities

($ thousands)	Trade	Other	2012	2011
Trade payables	$ 35,446	$ -	$ 35,446	$ 35,384
Lease obligations	-	3,982	3,982	4,791
Other liabilities	-	7,364	7,364	6,683
	$ 35,446	$ 11,346	$ 46,792	$ 46,858
Current portion	$ 35,446	$ 2,045	$ 37,491	$ 37,386
Non-current portion	-	9,301	9,301	9,472
	$ 35,446	$ 11,346	$ 46,792	$ 46,858

See Note 9 *Lease and Other Commitments* for details of the lease obligations.

(d) Surplus distributions

($ thousands)	Change in Comprehensive Income		Surplus Distributions Payable	
	2012	2011	**2012**	2011
Surplus distributions, beginning of year			$ 850	$ 230,128
Payment of prior years' surplus distributions			-	(227,847)
			850	2,281
Adjustment of prior years' accruals	$ (649)	$ (1,431)	(607)	(1,431)
Outstanding balance from prior years			243	850
Surplus distributions authorized for the year	85,490	-	85,490	-
Surplus distributions, end of year	$ 84,841	$ (1,431)	$ 85,733	$ 850

Substantially all surplus distributions are paid within one year.

(e) Safety rebates

($ thousands)	**2012**	2011
Safety rebates payable, beginning of year	$ 73,327	$ 81,204
Payment of prior years' rebates	(72,182)	(75,576)
	1,145	5,628
Adjustment of prior years' accruals	2,051	(4,549)
Outstanding balance from prior years	3,196	1,079
Rebates for the year	87,143	72,248
Safety rebates payable, end of year	$ 90,339	$ 73,327

Safety rebates represent amounts recognized under the PIR program. See Note 13 *Premium Revenue* for further discussion of the PIR program.

(f) Injury reduction

($ thousands)	**2012**	2011
Occupational Health and Safety	$ 28,968	$ 27,694
Industry safety associations	17,800	17,934
	$ 46,768	$ 45,628

Injury reduction is composed of statutory funding of Occupational Health and Safety and voluntary premium levies to fund industry-sponsored safety associations.

Appendix: Glossary

Asset-liability management

A risk management approach that ensures sufficiency of resources to discharge specified obligations by managing the risk characteristics of invested assets relative to liabilities for such factors as yields, duration, volatility and default.

Asset-liability study

A financial model for determining the appropriate amount and mix of investment assets, given a specified level of risk, to generate a return that is sufficient to fund the interest requirement of claim benefit liabilities.

Average premium rate

Calculated as total revenue requirements divided by the projected insurable earnings for the premium year.

Currency overlay

A foreign-currency risk management strategy used in international investment portfolios to separate the management of currency risk from the asset allocation and security selection decisions of the fund managers.

Derivative

A **financial instrument** whose characteristics and value depend on the characteristics and value of an underlying security, typically a commodity, bond, equity or currency. Examples of derivatives include futures and options. Derivatives are used to manage risk associated with the underlying security, to protect against fluctuations in value or to profit from periods of inactivity or decline.

Fair value

The amount of the consideration that would be agreed to in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In the context of investments, fair value is generally synonymous with market value.

Financial instrument

Any contract that gives rise to a financial asset (e.g., cash equivalent, accounts or note receivable, share security) of one party and a financial liability (e.g., accounts or note payable, bond) or equity instrument (e.g., stock option, warrant) of another party.

Financial risk

The possibility or chance that an investment's return will be other than expected, resulting in a negative outcome. The negative outcome would be associated with the possibility of losing some or all of the original investment, or adverse changes in its cash flows. For a specific investment, risk is usually measured by calculating the standard deviation of its historical or average returns.

Hedging

A portfolio management activity designed to modify an entity's exposure to one or more financial risks by creating an offset between changes in the fair value of or the cash flows attributable to the hedged item and the hedging item (or the changes resulting from a particular risk exposure relating to those items).

Margin for adverse deviation

A risk margin that addresses the uncertainty arising from statistical fluctuations and data anomalies that are inherent in long term actuarial assumptions.

Meredith Principles

The framework outlined in then-Chief Justice of Ontario Sir William Meredith's report on workers' compensation in 1913, now commonly known as the Meredith Principles:

- Workers receive compensation benefits regardless of fault for work-related injuries.
- Employers share collective liability for the costs of work-related injuries and, in return, employees waive the right to sue.
- Injured workers are entitled to prompt payment of benefits, and guaranteed future payments.
- The workers' compensation agency has exclusive jurisdiction over all legal matters arising out of the enabling legislation.
- The agency is financially independent of the government and enjoys full autonomy over all administrative and adjudicative matters.

Real discount rate

The rate used to discount the actuarial projections of all future claim benefit payments back to present value. The rate is based on the real rate of return that the investment portfolio is expected to generate over the long term, at a 70 per cent probability level. This provides the mechanism for generating a margin for adverse deviation in the claim benefit liability. The real discount rate is also called the net discount rate.

Real rate of return

The annual percentage return realized on an investment, adjusted for changes in prices due to inflation or deflation.

Return

The interest and dividend income and the capital gains or losses associated with an investment. The return is usually quoted as a percentage of the investment's market value (market return) or its book value (book return). Performance of an investment or a pool of investments is the actual rate of return over a given evaluation period.

Risk

In general, the possibility or chance that a future event or outcome will be different than expected, and will lead to a loss. See also **financial risk**.

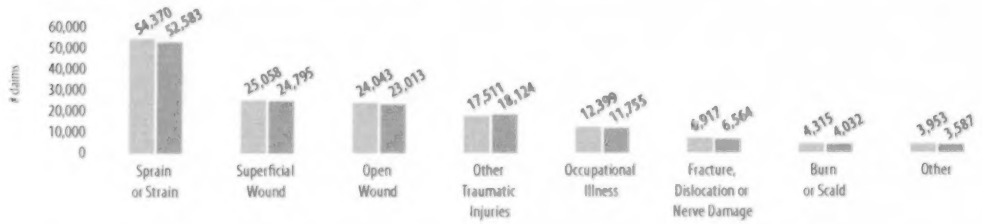
2012 summary of claims administered

	2012		2011	
Active claims as of January 1		27,879		25,860
New lost-time claims	27,339		27,072	
New medical-aid-only claims	121,227		117,381	
Total new claims reported	**148,566**		**144,453**	
Recurrent claims[1]	22,798		22,917	
	171,364	171,364	167,370	167,370
Total claims administered		**199,243**		**193,230**

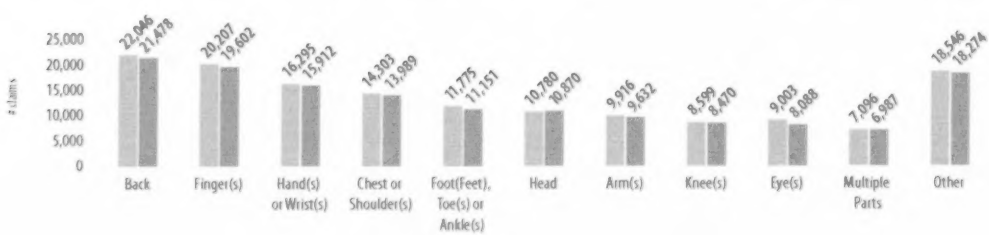
[1]*Previously inactive claims that required further adjudication or case management. Claims may reopen for a number of reasons, such as payments for medical aid or requests for further compensation benefits.*

Ineligible claims	**2012**	2011
LOST-TIME CLAIMS		
Insufficient information available to process claim	282	264
Not covered under *Workers' Compensation Act*	120	126
Injury or illness not arising out of/in course of employment	2,165	2,006
MEDICAL-AID-ONLY CLAIMS		
Insufficient information available to process claim	5,115	4,670
Not covered under *Workers' Compensation Act*	2,357	2,036
Injury or illness not arising out of/in course of employment	4,953	3,614

New claims by nature of injury **2012** **2011**



New claims by part of body **2012** **2011**

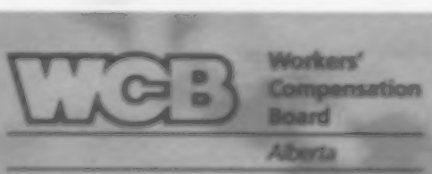


2012 year at a glance

	2012	2011
Number of workers covered	1,938,373	1,792,023
Registered employers	154,712	146,408
Lost-time claim rate (per 100 workers)[1]	1.5	1.6
Disabling-injury rate (per 100 workers)[1]	2.7	2.8
Number of new claims reported	148,566	144,453
Number of lost-time claims[1]	28,300	27,900
Number of recurrent claims[2]	22,798	22,917
Fatality claims accepted	145	123
Ineligible lost-time claims (percentage of all lost-time claims)	9.4%	8.9%
Number of new requests for review to the DRDRB	3,103	2,904
Return to work with date of accident employer	20,920	17,881
Return to work with new employer	423	385
Estimated average claim duration (TTD days)	34.2	36.6
Claim costs (thousands)	$1,321,635	$1,109,023
Cost-of-living adjustment on long-term benefits	0.53%	0.0%
New non-economic loss and permanent disability awards	2,662	2,969
New economic loss awards	498	602
Maximum insurable earnings	$86,700	$82,800
Premium revenue (thousands)	$1,157,220	$1,021,702
Average collected premium rate (per $100 of insurable earnings)	$1.24	$1.23
Investment income (thousands)	$782,057	$310,800
Funded position (thousands)	$1,981,409	$1,655,087
Funded ratio (per cent funded)	130.2%	128.3%

[1] *Lost-time claims and the lost-time claim and disabling-injury rates are projected. This approach is taken to ensure claims for accidents occurring in 2012 but not reported by year-end are considered.*

[2] *Previously inactive claims reopened for a number of reasons including payments for medical aid or requests for further compensation benefits.*



Workers' Compensation Board – Alberta
P.O. Box 2415, Edmonton, AB T5J 2S5
www.wcb.ab.ca • 1-866-922-9221
ISSN: 1489-4084